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THE EMPLOYEE-ORGANIZATION RELATIONSHIP: A TIMELY CONCEPT IN A PERIOD OF TRANSITION

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ABSTRACT

The employee-organization relationship (EOR) has increasingly become a focal point for researchers in organizational behavior, human resource management, and industrial relations. Literature on the EOR has developed at both the individual – (e.g. psychological contracts) and the group and organizational-levels of analysis (e.g. employment relationships). Both sets of literatures are reviewed, and we argue for the need to integrate these literatures as a means for improving understanding of the EOR. Mechanisms for integrating these literatures are suggested. A subsequent discussion of contextual effects on the EOR follows in which we suggest that researchers develop models that explicitly incorporate context. We then examine a number of theoretical lenses to explain various attributes of the

Research in Personnel and Human Resources Management
Research in Personnel and Human Resources Management, Volume 23, 291-370
© 2004 Published by Elsevier Ltd.
ISSN: 0742-7301/doi:10.1016/S0742-7301(04)23007-9

EOR such as the dynamism and fairness of the exchange, and new ways of understanding the exchange including positive functional relationships and integrative negotiations. The article concludes with a discussion of future research needed on the EOR.

INTRODUCTION

The view that the employee-organization relationship (EOR) is changing has become a truism in both the popular business press and in the scholarly organizational literature. These changes have been due in large part to major transformations in the world of work. Organizations of today reflect a diversity of structures that was rare in the early part of the twentieth century. Organizations are flatter with more permeable boundaries, and often consist of employees who are loosely linked with one another. Work is increasingly structured by projects with natural lifecycles of growth and decline. Technology has increased the speed with which information is transmitted, and has changed the way in which work is conducted. Globalization has increased the complexity of the business environment, causing organizations to seek means of flexibility in a quickly changing and competitive environment. All of these changes have made the study of employee-organization relationships (EORs) increasingly critical, as organizational leaders seek ways to meet the needs of the organization and the people in them.

A great deal of research had been conducted on the EOR since the early 1990s. Many concepts, both new and revitalized, have focused on the exchange relationship between the employee and employer, including psychological contracts (Rousseau, 1995), perceived organizational support (Eisenberger, Huntington, Hutchison & Sowa, 1986), leader member exchange (Graen & Uhl-Bien, 1985), and the employment relationship (Tsui, Pearce, Porter & Tripoli, 1997). It is our goal in this article to explore the meaning of the EOR, with particular focus on psychological contracts, and the employment relationship. We use the EOR as an overarching term to describe the relationship between the employee and the organization, with the view that both psychological contracts (an individual-level phenomenon) and the employment relationship (a group-level phenomenon) are more specific cases of the EOR. In this article, we chose to put the spotlight on psychological contracts and employment relationships because: (1) both focus on exchange, highlighting the importance of examining both parties (employee and organization) to the relationship; (2) psychological contracts research has focused on the individual perspective and the employment relationship literature on the group or organizational perspective; (3) both concepts have inspired a great deal of research; and (4) we deem it important to discuss similarities,

differences, and ways of synthesizing these primarily separate literatures in the EOR domain.

EMPLOYEE-ORGANIZATION RELATIONSHIP

In the following sections are discussions of the psychological contract literature, followed by the employment relationship literature, and then similarities and differences in these literatures.

Psychological Contracts

The last 15 years has witnessed a huge growth in the psychological contracts literature, reflecting the tremendous interest in understanding EORs in the current environment of work organizations. In this section, we first discuss the evolution of the psychological contract concept, then follow with a discussion of similarities and distinctions with two other categories of concepts, including: (1) those reflecting other types of contracts, that is, social, legal, normative and implied contracts; and (2) those focusing on social exchange relationships in the work place, that is, perceived organizational support (POS), leader-member exchange (LMX), and team member exchange (TMX). Thus, we seek to describe the psychological contract domain, including the distinctiveness of this construct, while also exploring potential relationships with other related constructs.

Evolution of the Psychological Contract Concept

The definition of the construct "psychological contract" has undergone an evolution of sorts since first being introduced into the management literature by Chris Argyris in his 1960 book *Understanding Organizational Behavior*. Argyris used the term "psychological work contract" (p. 96), to refer to the relationship between factory line employees and their foremen. He applied the term to the implicit understanding that existed between the two parties to the contract: if the foremen respected the norms of the informal employee culture, the employees would continue satisfactory production with a minimum of problems.

The next two commonly cited works credited with expanding the definition of the psychological contract appeared in 1962 and 1965. The first of these is *Men, Management, and Mental Health*, by Levinson, Price, Munden, Mandl and Solley. Levinson et al. were influenced by Menninger (1958), in which he discussed the

intangible aspects of contractual relationships. Based on an analysis of interviews with 874 employees in an electric utility, Levinson et al. defined the psychological contract 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" (p. 21). They argued that mutual expectations were mostly implicit, were often based on the person's history prior to entering the organization, and change over time.

Schein (1965) credited the earlier studies by both Argyis (1960) and Levinson et al. (1962) as providing the input for his conceptualization of the psychological contract. His view centers on the mutual expectations that individuals and organizations have of each other. According to Schein "These expectations not only cover how much work is to be performed for how much pay, but also involve the whole pattern of rights, privileges, and obligations between worker and organizations" (p. 11). He argues that the organization enforces its side of the psychological contract through its authority structure, to which the employee implicitly agrees by joining the organization, and the employee fulfills his side by upward influence. Failure to uphold the contract can endanger the functioning of the organization and lead to a situation where employees no longer cooperate with the authority system.

Roehling (1997) provided an extensive historical analysis of the psychological contract literature. He notes that virtually all of the psychological contract studies during the 1970s and 1980s reference Schein's (1965) book, but that a transition point occurred in 1989 with the publication of Denise Rousseau's seminal article *Psychological and Implied Contracts in Organizations*. Rousseau defines the psychological contract as "an individual's beliefs regarding the terms and conditions of a reciprocal exchange agreement between that focal person and another party. Key issues here include the belief that a promise has been made and a consideration offered in exchange for it, binding the parties to some set of reciprocal obligations" (1989, p. 123).

Two important aspects of Rousseau's definition are those of perceived promises, with the resulting perceived obligations, and perceived mutuality. Rousseau (2001) provides a delineation of actions that may be perceived to constitute a promise. She argues that promises do not necessarily have to be spoken or written in the form of a promise in order to be perceived as such, but can consist of words or actions taken in context. Thus an employee may perceive a promise as having been made without the employer ever having issued an explicit verbal statement of such an intention. Furthermore, Rousseau and McLean Parks (1993) make clear that some expectations are contractual, others are not – they argue that expectations are contractual if they are based on promises.

From these perceived promises, perceived reciprocal obligations arise (Rousseau & Tijoriwala, 1998). Rousseau defines obligation as a commitment to some future

action. When entering into the employment relationship the employee realizes that by doing so he or she is accepting an obligation to furnish particular services to the organization as well as follow the directives of management (Blau, 1964). However, the employee perceives that the organization is also obligated to provide certain items in exchange, salary and wages being the most basic of these. Spoken and written communication, as well as actions taken by the organization, provide the employee with input as to the content of what he or she perceives to be promises of some future action to which the organization has obligated itself. Furthermore the employee believes that the agreement is mutually understood whether or not it is so (Rousseau, 1995).

There continues to be on-going debate as to the centrality of promises within the psychological contract framework (Roehling, 2004). There are proponents of the view that expectations play a key role, apart from promises, in the development of psychological contracts. There is clearly a need for research examining the potentially different, or redundant effects of promises and expectations on the development of the obligations perceived to constitute the psychological contract.

Comparison with Other Types of Contracts – Social, Legal, Normative, Implied

The psychological contract construct has been both linked to, and distinguished from, a variety of other types of contracts: social, legal, normative, and implied. Comparing psychological contracts to these other contract types presents a significant challenge, for several reasons. First, different conceptualizations of the psychological contract-construct compare differentially to other contract types. For example, the conceptualization of the psychological contract construct as involving at least some level of agreement or shared understanding between the parties (Levinson et al., 1962; Schein, 1970) bears much closer resemblance to traditional notions of a legal contract than the conceptualization of psychological contracts as involving individual level subjective beliefs (Rousseau, 1989). Second, just as there are multiple views of what constitutes a psychological contract, multiple views of the various contracts with which psychological contracts are compared are found in the literature. In some instances, the differing descriptions reflect an evolution of the contract type. However, there are also examples of contemporaneous competing views of what constitutes legal, social, or implied contracts (discussed below). Third, individual researchers have used terms describing different contract types with varying degrees of clarity and consistency, and in some instances, terms used to describe distinct contract types have been mixed or combined (e.g. "implied social contracts," Goldberg, 1994). Given the

complexity of the contracts literature, we chose to provide a basic review of four contract types, followed by a discussion that focuses on selected, key similarities and contrasts between psychological contracts and the four contract types.

Social Contracts

It has been suggested that the psychological contract construct is an extension of all that has been written about social contracts (Schein, 1980). The concept of a *social contract* originated in the context of philosophical inquiries aimed at prescribing and justifying rights in society. Social contract theorists Hobbes (1651/1958) and Locke (1690/1965) argued that the state was created through a hypothetical agreement among individuals, a "social contract," that defines rights and obligations in society. Social contract theorists did not explain social contracts as if they were based on actual historical events (e.g. "a meeting of the minds" forming an agreement), but as a statement of obligations logically arising from a specific kind of relationship (Kary, 2000). In contrast, the term *social contract* has been used more recently in the social sciences, and in the psychological contract literature in particular, to refer to an actual (versus hypothetical), measurable phenomenon: shared normative beliefs. For example, Rousseau (1995, p. 13) defines social contracts as "cultural, based on shared, collective beliefs regarding appropriate behavior in society."

A useful illustration of the two distinct uses of the term *social contract* can be found in Donaldson and Dunfee's (1999) Integrated Social Contracts Theory (ISCT), a theory that incorporates both types of social contracts, philosophical-hypothetical and actual-shared normative beliefs, to provide decision makers with a framework for resolving ethical dilemmas. A key component of ISCT is a hypothetical "macro-social contract" that generates ethical "hyper-norms" that are considered morally binding in all situations (e.g. norms reflecting the value of the sanctity of life). Another key component of ISCT is the existing "micro-social contract," the actual shared normative beliefs in the relevant community. Briefly, the general approach set forth in ISCT involves first identifying the norms, which make up the micro-social contract, and then determining the extent to which those community norms are consistent with the macro-social contract. If a community norm fails to pass this hyper-norm test, then it is not "legitimate" and the decision maker is not obligated to follow the norm.

Legal Contracts

At its most basic level, a legal contract is simply a contract enforceable by law. In theory and in practice, however, there is considerable variance in what is considered the essential characteristics of a legally enforceable contract. For example, classical contract theories: (1) employ formal reasoning that involve

the application of rigid rules or axioms; (2) emphasize bargained for promises as the basis for contractual obligations; (3) require objective evidence of an offer, an acceptance, and the exchange of valuable consideration; and (4) generally treat contracts as static agreements with terms that were fixed at the moment of formation (Eisenberg, 2001). In contrast, modern contract law theories: (1) recognize obligations based on both promissory and non-promissory principles (e.g. a general duty of good faith and fair dealing); (2) apply a regime of principles that are often individualized and reflect the dynamic nature of exchange relations (i.e. taking into account conduct before and after the time of contract formation and other contextual factors when interpreting the terms of the contract); and (3) are sometimes subjective (e.g. sometimes inquiring into the actual mental state of one or both parties rather than applying an objective "reasonable person standard"; Eisenberg, 2001).

Other, less widely discussed contract theories exist in the legal literature. Of particular relevance to the present discussion is Ian Macneil's theory of relational contract (Macneil, 1972, 1985), a theory that has had a manifest impact on the psychological contract literature (see Rousseau, 1989). According to Macneil, contracts are simply "relations among parties to the process projecting exchange into the future . . . no more or no less" (Macneil, 1980, p. 4). Relational contracting theory explicitly rejects classical contract law's objective formalism and its focus on promises as the basis for contractual obligations. Rather, relational contract theory posits that most modern contracting behavior involves obligations that arise from the relationship itself (e.g. based on customs, habits, expectations created by the status quo), "with only modest input from individual promise" (Macneil, 1980, p. 17). The impact of relational contracting theory on current contract law is under debate (Spiedel, 2000): Whether or not influenced by the arguments of relational contract theorists, it can be observed that in recent decades American contract law has increasingly recognized and enforced non-promissory, relational obligations among parties to a contract (e.g. obligations inferred from customary practice and usage, obligations recognized in order to avoid the violation of a good faith or fairness norm; Eisenberg, 2000).

Normative Contracts

The term *normative contract* has been used to describe circumstances where members of a social group (e.g. a group of employees working in the same organization) hold a common set of beliefs regarding the obligations owed among themselves and to relevant third parties (e.g. their employer; Rousseau, 1995). A normative contract may be viewed as a group level *psychological contract*, what might be referred to as a *common or shared psychological contract*. The extent to which normative contracts exist, the factors that influence their formation and their

influence on psychological contracting processes (e.g. reactions to perceived violations) are potentially important, but currently under investigated, areas of research.

Implied Contracts

The notion of an implied contract was imported into the psychological contract literature by Rousseau (1989), ostensibly from the law of contract. According to Rousseau, implied contracts are the attributions that people not party to contract (i.e. "third parties" or "outsiders") make regarding its terms, acceptance, and mutuality (Rousseau, 1995, p. 11). This description appears to closely approximate the law's recognition of *implied-in-fact* contracts in some situations. Implied-in-fact contracts arise from conduct and circumstances surrounding an exchange relationship that manifest a party's intention to obligate him or her self (even though that intention was not explicitly stated). The distinction between an express contract vs. one that is implied-in-fact merely lies in the mode of manifesting assent to be bound: the former involve express assent, the latter inferences based on circumstantial evidence (e.g. past course of dealing). In addition to implied-in-fact contracts, modern contract law also recognizes *implied-in-law* contracts, or "quasi contracts" (Corbin, 1993). Sometimes described as not involving true contracts, implied-in-law contracts involve obligations that are imposed upon a party out of fairness and equity considerations, regardless of the party's intent to be bound (Corbin, 1993).

Discussion of Key Similarities and Differences

While all of the discussed contract types can be related in some way to psychological contracts, there is considerable variation in the degree of that relation and the potential for the various contract types to contribute to psychological contract theory. Of least relevance to psychological contracting theory is the social contract of philosophers Hobbes and Locke, and more recently the macro social contract of ethicists Donaldson and Dunfee (1999). Unlike psychological contracts, which involve beliefs that are subject to scientific measurement (albeit indirect), the social contract of Hobbes and Locke is a philosophical construction, the result of "thought experiments." More closely related to psychological contracts, and of much greater relevance to psychological contracting theory, are social contracts described as involving shared normative beliefs (Rousseau & McLean Parks, 1993). This type of social contract differs from psychological contracts on several dimensions. First, it exists at the community level vs. the individual level (Rousseau, 1989) or dyadic level (Levinson et al., 1962; Schein, 1980). Second, closely related to the

level of conceptualization, social contracts involve broad, cultural based beliefs (Rousseau, 1995), whereas psychological contracts are more likely to also include more specific beliefs idiosyncratic to the relationship in question, and based on other factors (e.g. the course of dealing between the parties, individual differences). Third, the social contracts described in the behavioral sciences typically focus on normative *expectations*. In contrast, conceptualizations of the psychological contract construct are increasingly focusing on a narrower set of beliefs, obligations (e.g. King, 2000; Shore & Barksdale, 1998) or promised-based obligations (e.g. Rousseau & Tjoriwala, 1999; Turnley & Feldman, 2000). Clearly distinguishable from psychological contracts, the primary role of social contracts in psychological contracting theory would appear to be that of a potential antecedent, one of several general factors that may influence the beliefs that make up the psychological contract.

Of the contract types discussed, the comparison of psychological contracts with legal contracts is the least straightforward. It has been observed that "[w]hatever a contract is, is bound up in what is legal and/or fair" (Rousseau, 1995, p. 3). The manifest connection between legal contracts and the origin of the psychological contract may explain why researchers attempting to address the fundamental issue of the construct's discriminant validity take pains to differentiate *psychological* contracts from *legal* contracts (Rousseau, 1998). Typically, it is argued that whereas legal contracts require intentions and/or conduct that meet standards of objectively (e.g. acknowledgment by the parties to the contract or a judicial determination that an offer was made and accepted) and are enforceable in court, psychological contracts involve highly subjective beliefs that may, or may not, be enforceable (e.g. King, 2000; McLean Parks & Schmedemann, 1994; Rousseau, 1995). This differentiation best captures the distinction between psychological contracts and classical notions of contract law, which, as the earlier discussion indicated, require objective evidence that formal requirements have been met (e.g. "an offer," "an acceptance") in order to conclude that contractual obligations exist. However, the objective-subjective distinction that is made between legal and psychological contracts is being eroded as contemporary contract law increasingly takes into account the subjective state of mind of the parties (in certain circumstances) and recognizes obligations arising out of exchange behaviors that are not based on bargained for promises (Eisenberg, 2001). As refinements of the psychological contract construct are contemplated with a view toward developing a stronger consensus in the literature, an important question to be addressed is the extent to which the conceptualization of the psychological contract construct should be bound by legal notions of what constitutes a contract. Further, if the construct is to be bounded by legal notions of contract, should theorizing be guided by classical theories of contract law (e.g. a focus on promises as the basis for all contractual

obligations, "mutuality"), or more modern theories of contract found in the legal literature, such as relational contracting theory?

*Comparison with Leader-Member Exchange (LMX),
Perceived Organizational Support (POS), and Team
Member Exchange (TMX)*

Research and theory development on psychological contracts has evolved with little integration with three other key social exchange-based constructs, leader-member exchange (LMX), perceived organizational support (POS), and team member exchange (TMX). Given that psychological contracts reside within individuals as perceptions of the obligations for reciprocity by both parties of social exchange relationships (Rousseau, 1989), the overlap with LMX, POS, and TMX is readily apparent. Psychological contracts represent employee perceptions of what compensation, resources, and/or support can be expected from an exchange partner in return for meeting perceived job-related obligations. On the other hand, LMX captures perceptions of the quality of the relationship formed with the immediate leader, POS involves perceptions of resources and support actually received from the organization, and TMX represents the general quality of relationships with fellow team members. LMX, POS, and TMX represent *perceptions of the actual state* of the relationships with the immediate leader, the organization, and teammates respectively. As such, these constructs represent the tenor of the social exchange relationships with these three parties without explication of mutual obligations between the employee and any of these parties (employer, manager, or team members).

Just as individuals tend to form multiple social exchange relationships in organizations, they may develop corresponding psychological contracts pertaining to each of these exchange partners. Thus, individuals may establish psychological contracts outlining the *expected* reciprocity with immediate superiors, teammates, and the organization, as well as perceptions of the *actual* resources and support received from each of these exchange partners. Most research on psychological contracts in organizational settings has made the assumption that employees develop only one psychological contract – with the organization as a whole. However, Rousseau's (1989, p. 123) definition of psychological contracts as "an individual's beliefs regarding the terms and conditions of a reciprocal exchange agreement between that focal person and another party," opens the door to the possibility that individuals in organizations simultaneously develop multiple psychological contracts.

Psychological Contracts and LMX

Early work on LMX portrayed low quality LMX relationships as being based on the formal written employment contract whereas high quality LMX relationships were described as extending beyond the formal contract. For example, Liden and Graen (1980, p. 464) noted that, "members who have high quality exchange . . . have been selected by the supervisor because she/he feels that they can be trusted in dealing with responsibilities going beyond the formal employment contract. A non-written interpersonal contract seems to be negotiated between the leader and the preferred subordinate(s)." Despite this portrayal of high LMX relationships as being based on a psychological contract, LMX has been operationalized as perceptions of the quality of the relationship between supervisor and subordinate with the *exchange* in leader-member exchange conspicuously missing (Liden, Sparrowe & Wayne, 1997).

The closest LMX research has come to actually measuring a psychological contract pertaining to the supervisor-subordinate relationship are studies by Liden, Wayne and Stilwell (1993) and Maslyn and Uhl-Bien (2001). Liden et al. (1993) measured leader and subordinate expectations for the relationship during the first two weeks of the subordinate's employment in the organization. Items measured the extent to which leaders and subordinates expected their dyadic partners to be high performers and to be similar to themselves in terms of perspective and values. Maslyn and Uhl-Bien (2001) assessed the degree of effort that both leaders and subordinates felt that they and their dyadic partners had put into the relationship. Although such items are tangentially related to psychological contracts, it would be desirable to directly assess psychological contracts by asking subordinates and leaders for their perceptions of the reciprocity obligations that exist in their relationships. Leaders and subordinates could then be asked to describe the exchange of resources and support between leader and member as recommended by Liden et al. (1997). Contract breach could be assessed in two ways: (1) As the actual gap between expectations and perceptions of what is actually being exchanged; and (2) By directly asking leaders and members for their perceptions of the extent to which their expectations of the reciprocity obligations had been met.

A final piece to the puzzle of understanding LMX relationships as they pertain to psychological contracts is to ascertain the *desired* psychological contract. Just as some individuals are low in growth need strength and do not desire enriched/challenging jobs (Hackman & Oldham, 1976), some individuals may not want the type of psychological contract that corresponds to high LMX status (Dienesch & Liden, 1986). They may prefer a low LMX relationship so that they will not be stressed by the pressing obligations that are part of a high LMX psychological contract.

An interesting paradox surfaces when considering that when individuals who desire low LMX relationships find themselves in such relationships, expected obligations on the part of themselves and their supervisors are low, and thus the chance of a contract breach are significantly lower than they are for people who desire and are part of high LMX relationships. Indeed, the higher one's expectations, the greater the probability of contract breach.

Psychological Contracts and POS

A parallel may be drawn between LMX and POS. Similar to LMX, POS represents a perception of what is currently being received from the organization, or the quality of the relationship with the organization (Eisenberger et al., 1986; Rhoades & Eisenberger, 2002). A psychological contract with the organization, on the other hand deals with perceived obligations on the part of both the focal individual and the organization. Psychological contracts thus examine mutual obligations of employee and organization, while POS focuses on support expected from the organization.

As with LMX, individuals may vary in their desire for high levels of organizational support, as such support comes at a price. Some individuals may prefer low POS so that they are not stressed by the need to fulfill obligations that come with high levels of POS. In addition, individuals desiring more from the organization will be more likely to perceive contract breach.

Psychological Contracts and TMX

Similar to LMX and POS, TMX refers to the overall quality of relationships with team members (Seers, 1989). Likewise, measures of TMX do not capture what is actually exchanged between a focal individual and team members. Individuals may perceive the existence of a psychological contract with fellow teammates, in terms of expected reciprocal obligations, and may be cognizant of what is actually being exchanged with teammates. As with LMX and POS, contract breach could be assessed in two ways: (1) As the actual gap between expectations and perceptions of what is actually being exchanged between teammates and the individual; and (2) By directly asking members for their perceptions of the extent to which their expectations of the reciprocation obligations with teammates had been met.

Finally, as with LMX and POS, individuals may vary in terms of their desire for psychological contracts that correspond to high TMX relationships. Some, especially those who are highly individualistic in their orientation (Earley & Gibson, 1998), may prefer lower TMX so that they do not feel pressured to reciprocate for support received from teammates. Others may simply be reluctant to receive help from others (Bolino & Turnley, 2002).

Integration of Psychological Contracts and Social Exchange Theory

Most members of organizations participate in multiple social exchange relationships simultaneously. These include relationships formed with immediate supervisors, co-workers/teammates, and the organization in general. We contend that the psychological contracts corresponding to these three forms of social exchange overlap considerably with one another. For example, obligations to reciprocate to team members may overlap with obligations to reciprocate to immediate leaders for resources and support received.

Research is needed that examines psychological contracts pertaining to leaders, teammates, and the organization, as well as perceptions of what is actually received from these exchange partners. It would then be possible to examine the discriminant and convergent validity of these three types of social exchange relationships and corresponding psychological contracts. In addition, antecedents of each type of social exchange relationship should be investigated, extending the work of Eisenberger, Stinglhamber, Vandenberghe, Sucharski and Rhoades (2002), Masterson, Lewis, Goldman and Taylor (2000), and Wayne, Shore and Liden (1997). One such variable may be the individual difference introduced here, degree of desire for high LMX, TMX, and POS.

Summary

In sum, this section discussed the chronology of the psychological contract literature, and some differing views of its definition. The psychological contract construct was then compared with other types of contracts, as well as POS, LMX, and TMX. While there are some similarities among constructs, the psychological contract is distinguished by: (1) being an individual-level perception; (2) focusing on mutual obligations; and (3) explicit description of the exchange relationship between employee and employer. Based on this review, we suggest several areas in which the literature could use further development. First, examining how other forms of contracting (normative, social, implicit and legal) contribute to individual-level perceptions of the psychological contract would help to understand how contracts more broadly play a role in the EOR. Second, determining the influence of mutual obligations to multiple organizational agents (supervisor, co-workers, and organization) on employee attitudes and behavior would increase understanding of the role of obligations in the EOR. Finally, greater theorizing about how the social context at work and its various agents may contribute to the psychological contract with the organization is needed. Ongoing discussion about who represents the organization in the EOR highlights the interest in this last topic (Rousseau, 1995; Shore & Tetrick, 1994).

Employment Relationships

In this section, the focus is on the employment relationship, the employer's perspective on the exchange relationship with employees. This literature has more recently emerged, beginning with the conceptual article by Tsui, Pearce, Porter and Hite (1995) in which they discussed the employment relationship as consisting of clusters of human resource practices offered to groups of employees, and employee contributions as a result of such varying practices. In this section, we first discuss the evolution of the employment relationship concept, then follow with a discussion of more current work in the employment relationship. Thus, we seek to summarize the employment relationship domain as specified in the literature.

Evolution of the Employment Relationship

The historical origins of research on employment relationships can be traced to the work of Barnard (1938) who argued that organizational success was contingent upon the management of the "exchange of utilities" (p. 240). This exchange involved the provision of inducements (pay, power, social support, participation) in return for "quantity and quality of efforts" (p. 230). This explicit exchange framework underpins subsequent work and in particular that of March and Simon (1958) and Tsui et al. (1997). Most organization-level theories do not focus on the exchange *per se*. However, two bodies of research, namely, workforce governance and human resource management systems, have provided the basis for much theorizing about the employment relationship and so a brief review follows.

Workforce governance. Etzioni (1961) views organizational governance in terms of compliance relationships that develop based on the type of power applied to organizational members and the resultant type of involvement from organizational members. The basic argument is that when organizations have congruency between the type of power applied and the type of involvement organizational members have (based on their personality, socialization etc.), this fit is likely to result in more effective organizational functioning. The management of employee-employer relationship through control has received additional attention in the work of Ouchi (1980) and Walton (1985). Although Etzioni (1961) used power as the basis for his typology of compliance relationships, the work of Ouchi and Walton shifted the emphasis towards the specification of organizational characteristics necessary to achieve desired employee behavior (for a detailed review, see Tsui & Wang, 2002).

Retaining the thread of power, Mahoney and Watson (1993) classify workforce governance in terms of employees' ability to influence the nature of the employment relationship. They propose three models: authoritarian, collective bargaining and employee involvement, and examine the conditions under which the three

workforce governance models are likely to be effective in achieving superior organizational functioning and performance. The authoritarian model is posited to be more effective in smaller unitary organizations where the technology is routine and employees are relatively homogenous with relatively little organizational dependence upon their skills and knowledge. The collective bargaining model will be more effective under similar conditions except that the organization is more dependent upon the collective skills and knowledge of employees. Finally, the employee involvement model is more suited to organizations operating in dynamic and changing environments where employees are heterogeneous and "beyond contract" contributions are needed. Together, the workforce governance models focus on organizational characteristics, organizational and employee power and their consequences on the extent to which control or commitment underpins the employment relationship.

Human resource management systems. The "control/commitment" strategies to workforce governance underpin much of the research on human resource management systems. Specifically, some HRM researchers have sought to specify the types of HR practices associated with a control and commitment approach to HRM (Arthur, 1994; Delery & Doty, 1996; Youndt, Snell, Dean & Lepak, 1996) while other researchers have focused on mapping HRM practices associated with a high commitment/performance approach to HRM (Huselid, 1995; Wood & Menezes, 1998). This research has established the relationship between HRM practices and organizational performance using universalistic, contingency and configurational perspectives (Delery & Doty, 1996). Less researched is an examination of the mechanisms by which HR practices may affect organizational performance. To this end, Moynihan, Gardner and Wright (2002) find empirical support for organizational commitment as a mediator in the relationship between HR practices and performance suggesting that organizational commitment plays an important role in achieving the desired outcomes. Thus, it would seem that investment in employees is likely to be reciprocated through enhanced commitment to the organization. Although inferences can be made from the workforce governance models and human resource management systems in terms of what employees receive in return for their contributions, this is made much more explicit and differentiated in research that draws on the inducement-contribution framework.

Inducement-contribution model. March and Simon (1958) further developed Barnard's (1938) idea of "exchange of utilities" in their inducement-contribution model. March and Simon view the employment relationship as an exchange of organizational inducements for employee contributions. They elaborate by examining balance in the relationship. From the employees' perspective, satisfaction is

greater when there is a greater difference between the inducements provided by the organization and the contributions required in return. From the organization's perspective, its continued existence depends on whether the contributions from employees are sufficient to generate the necessary inducements. Consequently, the exchange relationship is characterized as bi-directional whereby employee contributions are contingent upon organizational inducements and vice versa.

Drawing on the inducement-contribution model (March & Simon, 1958) Tsui et al. (1997) outline four types of employment relationships that differ on two dimensions: the degree of balance/imbalance in each party's contributions and whether the focus of these contributions is economic or social. Briefly, a balanced economic exchange (job-focused) occurs when the employer offers short-term purely economic inducements in return for highly specified outcomes. A balanced social exchange (organization-focused) occurs when both parties offer an open ended and long-term investment to each other. The underinvestment approach occurs when the employer expects open-ended commitment and long-term investment from employees in return for short-term economic inducements. The overinvestment approach is categorised by the employer offering long-term investment in return for highly specified employee outcomes. In their empirical study, Tsui et al. (1997) found that a mutual investment employment relationship was positively associated with employee attitudes and performance.

Current Views of the Employment Relationship Construct

The previous section focuses on the evolution of the concept of the employment relationship since Barnard introduced the ideas of inducements and contributions in 1938. Over the years, a variety of terms and models have been introduced into the literature to describe the nature of the relationship that an employer may have with their employees. It is interesting to see the consistency among the various models and their converging into two prototypes (i.e. organization-focused and job-focused) involving a balance between inducements and contributions, defined from the employer's perspective (Tsui & Wang, 2002). The current section provides a brief account of the most recent views on the construct as reflected in the publications within the past five years. The literature suggests three major areas of development: the conceptualization of the construct employment relationship, the factors influencing the use of different employment relationship types by the employer, and studies of the employment relationship in an emerging economy – People's Republic of China.

Conceptualization of the construct employment relationship. With the changes in the economic and social environments during the past two decades and the trend continuing into the new century, there is a general agreement that the nature of the

employment relationship between the employee and the employer has undergone dramatic changes as well. The major changes are the removal of traditional job security by the employers, the withdrawal of loyalty by the employees, and the increased flexibility in dealing with each other (Roehling, Cavanaugh, Moynihan & Boswell, 2000). The changes have resulted in the increased use of externalized work arrangements (Pfeffer & Baron, 1988). Given the deep penetration of these practices in many industries, are there corresponding changes in the scholarly views of the employment relationship construct in recent years? We found some revised or refined conceptions of the construct in the recent literature. Specifically, authors have used the terms of employment relationships, employment modes, and employment status to highlight the increased prevalence of non-standard employment arrangements, and its distinction from standard employment relationships.

Building on the resource based view Lepak and Snell (1999) introduced four types of employment relationships categorized on the bases of the strategic value and uniqueness of the firm's human capital. When both the value and uniqueness of the human capital are high, the firm would have an organization-focused relationship with the employees. When both the value and uniqueness are low, the firm would have a job-focused relationship with the employees. When value is high but uniqueness is low, the relationship would be symbiotic which is similar to the organization-focused approach with the exception that both parties would not expect a high level of commitment from each other. When the uniqueness is high but the value is low, the relationship would be a partnership in which trust is critical to encourage the pooling of unique resources and to ensure a longer-term relationship that would be the case in a job-focused relationship. This model of employment relationship types captures the two prototypes that have prevailed in the literature and introduces two new types of the symbiotic relationship and partnership. Lepak and Snell (1999) further specified that firms would move from one relationship type to another when the degree of value or uniqueness of the human resources changes. Thus, this is a dynamic model to accommodate possible changes in the firm's strategy and the implication of these strategic changes for the value and uniqueness of the firm's human capital.

The authors further distinguished the four types of employment relationships discussed above from four types of employment modes. The latter refers to the manner with which human resources are to be acquired (i.e. internal development, contracting, external acquisition, and alliance) while the former refers to the nature of the relationship after the human resources are acquired. In a later paper, Lepak, Takeuchi and Snell (2003) used the term "knowledge-based" employment to refer to the internal development mode, and "job-based" mode to refer to external acquisition. Their empirical study showed that both the knowledge-based and job-based employment modes were positively associated with firm performance.

and these relationships varied across levels of technological intensity. Lepak and Snell (2002) further confirmed that the strategic value and uniqueness of human capital differ across the four employment modes.

Though Lepak and Snell (1999) distinguished employment relationships from employment modes, their empirical tests reported in the 2003 papers used only the modes and not the types. It appears that there may not be the need to have these two separate sets of terms. Employment relationships may subsume employment mode since the former may include how human capital is to be acquired (entry), deployed, or disposed (exit) by the firm. Further work, both conceptual and empirical, is needed to either merge these two concepts (i.e. employment mode and relationship) or to better distinguish them.

We can also distinguish the four employment modes discussed above by the employment status of the employee. Under both the knowledge-based (organizational-focused or internal development) and job-based (job-focused or external acquisition) modes, employees have a permanent employment status within the firm in that the termination date of the employment is open-ended. Under the contracting and alliance (or partnership) modes, employees are not permanent members of the organization and the relationship has a fixed termination date.

Factors influencing employment relationships. The recent literature also shows continuing interest in analyzing the determinants of the different types of employment relationship. One factor appears to be the use of multi-employer forms (Rubery, Marchington, Coopke & Vincent, 2002). Organizations are changing toward less clear boundaries (Rubery et al., 2002). Many organizations enter joint ventures, alliances, and partnerships. The permeable nature of organizations and the development of multi-employer relationships introduce new problems and ambiguities into the employment relationship. In the traditional organization with a simple hierarchy, the problem exists with defining the "employer" for each employee. In this multi-employer context, the problem is compounded. Who has the right to supervise and control the employee? Who is responsible for handling grievances, conflict and loyalty? How are bargaining units defined? Contradictions, ambiguities and complexity may be particularly serious in the areas of pay, performance management, and organizational commitment. The authors concluded that such complexity might mean the need for a dual approach – increased use of both contracts and permanent status forms of the employment relationship.

Romme (1999) introduced self-determination as an alternative to domination for internal control. Self-determination is particularly relevant in organizations that use a different kind of structure, e.g. the circular form of organizing found in some European companies. In such a structure, there is the absence of a single ultimate

authority. Therefore, it has some resemblance to the multi-employer organizations discussed in Rubery et al. (2002). In such an organization, control is exercised through feedback rather than authority. The employment relationship derived is a partnership contract implying an equal division of authority. The distinction between employer and employee reduces or perhaps even ceases to exist, because participants share ownership. This form of control is especially useful in small groups dealing with open-ended, dynamic situations in which new problems and issues frequently emerge. Dominance based control may be more effective in large groups of people facing rather predictable and stable situations. Romme recognizes that "effective governance and control systems would therefore have to incorporate both domination and self-determination as fundamental human concerns" (p. 804). This implies the dual approach of employment relationship discussed by Rubery et al. (2002).

Sherer, Rogovsky and Wright (1998) suggest that a need for behavioral control influences organizations' choice of employment relationship. Based on agency theory, most organizations should prefer a non-employment relationship to eliminate the need for monitoring by the employer. However, Sherer et al. found in their study that taxicab companies in reality used the (permanent) employment relationship more often than leasing or ownership (i.e. externalization). The authors explained this phenomenon by using the resource-based view. The argument is that the employment relationship provides the firm with internal flexibility, enforcement of organizational routines to ensure quality service, and to foster internal cooperation. Therefore, the employers prefer to use the permanent employment relationship and are willing to incur the added cost of employee benefits and payment of employment tax.

Lastly, Masters and Miles (2002) found support for the nature of the job influencing the employment relationship. They argued that firms use the permanent employment relationship more often when they need to make repeat hiring for the job, when the job requires firm-specific skills, and when performance in the job is difficult to assess. Their results are consistent with the model by Lepak and Snell (1999) that used the criteria of value (repeated hiring) and uniqueness (firm specific skills) in determining the different types of employment modes and relationships. These studies together suggest that the structure of the organization, job nature, and quality of human capital are the antecedents or determinants of employment relationships in firms.

Employment relationships in China. The literature also revealed interest in the employment relationship in the emerging economy of the People's Republic of China. Frenkel (2001) analyzed the use of codes of practices intended to improve the working condition of workers in two leading athletic shoe buyer-driven

chains and their contractor plants in Southern China. The codes encouraged a less authoritarian and more human resource-oriented approach. These studies suggest a tendency to move away from an "under-investment" approach to a more "job-focused" approach in the relationship between the factory owners and their workers. However, the employment relationship at the factory level remains very basic, focusing on fundamental terms of employment and working conditions.

Tsui, Wang and Zhang (2002) studied the employment relationship of firms with their middle managers in a variety of firms in China. This study adopted the inducement-contribution framework and defined the employment relationship as the balance between expected contributions and offered inducements, from the employer's perspective. The authors developed two forms of expected contributions (professional managerial duties and loyalty) and two forms of inducements (developmental rewards and materialistic rewards). They found differences in employment relationship practices between the state owned and the non-stated owned firms in China. Specifically, state owned firms expected more loyalty and offered fewer developmental rewards. In contrast, the foreign firms and the private domestic firms expected more managerial professional duties from the middle managers but only the foreign firms offered more developmental rewards. These studies in China offer an important starting point for future comparative research on employment relationships in different countries. Another study (Wang, Tsui, Zhang & Ma, 2003) employed the cluster analytic technique and replicated the typology of employment relationships by Tsui et al. (1997). The authors tested the moderating role of business strategy and the firm's ownership type on the relationship between employment relationship type and firm performance. They found the relationship between the organizational focused (or mutual investment) approach and firm performance to be negative for firms using the prospector strategy but positive for firms pursuing the defender strategy. Further, the relationship is positive for the state owned enterprises but negative for the private domestic firms. The results suggest the meaningfulness of the employment relationship concept in this emerging economy and paved the foundation for comparative research in the future.

The Employment Relationship and Psychological Contracts Contrasted

In this section of the article, we discussed early and contemporary views of the employment relationship, reflecting changes from Barnard (1938) and March and Simon's (1958) statements of organizational inducements such as wages and job security and employee contributions in skills and effort to the more recent focus on job based relationships emphasizing short term relationships and high performance vs. organizational based relationships requiring long-term relationships and commitment. Conversely, the prior section presented another major stream of research

on the employment exchange, the psychological contract, and noted a change in the contract's conceptualization from its early appearances in the management literature (Levinson et al., 1962; Schein, 1965), i.e. a set of mutual expectations regarding pay, rights, privileges and obligations that both the organization and employee hold for one another in the context of the employment exchange, to beliefs concerning the terms and conditions of the employment exchange (Rousseau, 1990, 1995). Given our article's focus on providing a broad and integrated portrayal of the EOR over time, it is useful to consider how the psychological contract and employment relationship are in fact similar and different from one another.

Similarities Between the Two Literatures

Several important similarities between the two concepts and their respective literatures are important to highlight. First, both view the employing organization, as the buyer of the employee's labor and the party who has greatest control over procedures and outcomes in the workplace, as generally having greater power than the employee to establish the terms of the contract as the basis of the exchange. For example, Schein (1970) argues the importance of having a psychological contract where the employee retains sufficient power to exert *some* influence over the nature of the contract terms and Rousseau (2001) cites the preponderance of unilateral and large scale contract changes by the employing organization as one motivation for her decision to focus on the employee's perspective of the contract. In discussing the employment relationship, Capelli (1999) acknowledges that organizations have made dramatic changes in the nature of the employment relationship in response to the emergence of a highly competitive external environment whereby the demands of the market for the organization's products and/or services and to some extent the labor market, largely shape what is exchanged between the two parties. Similarly Kalleberg (2001) emphasizes flexibility as a major theme in the literature on work and workplaces, and while acknowledging the importance of flexibility for the individual employee for the purpose of balancing work and non-work activities, plainly cites *workplace flexibility* as an *organizational* strategy undertaken in order to adapt to changes in product and labor markets.

Second, both contract theory and employment relationship conceptualizations are focused, albeit in different ways and with differing degrees of specificity, on the bases of exchange between the individual and organizational parties. In particular, both are highly concerned with *the extent to which job security continues to be exchanged for loyalty and commitment and investment in training and development, for high quantity of effort and valued skills required to achieve the organization's goals*. Thus, both literatures are highly concerned with the

nature of the social exchange between organization and employee, with the organization's power to unilaterally and rapidly alter the nature of the exchange and with the resulting implications for the welfare of each party.

Differences Between the Two Literatures

Yet despite some obvious similarities, there are also three primary differences between these two concepts and literatures.

(1) *Perspective and level of analysis.* One important difference that receives fairly consistent support in the literature is that the psychological contract is largely focused on the perspective of individual employees, and related to this, on outcomes at the individual level of analysis (e.g. employee job satisfaction, commitment, turnover, organizational citizenship behavior and performance; Robinson, Kratz & Rousseau, 1994; Rousseau, 1995). In contrast, the employment relationship literature largely reflects the organization's perspective and is therefore more focused on either employee group/job or organizational level outcomes. For example, Mahoney and Watson (1993) propose authoritarian, collective bargaining, and employee involvement models of workplace governance and their consequences for organizational functioning and performance, while Tsui et al. (1997) identify which cells of their balanced, over or under investment model characterize the employment relationship of the group of employees working in a particular job through the assessments of supervisors' reports of HR practices. They then assess attitudinal and behavioral outcomes at the individual level of analysis.

(2) *Content of obligations vs. basis of exchange.* Although both the literature on the psychological contract and the employment relationship are concerned with the specific content of what is exchanged between the two parties, psychological contract theory and research is focused on the specific nature or content of the parties' *mutual obligations*, while the employment relationship research generally emphasizes two to five relatively general components of the exchange between employee and organization. For example, in the psychological contract literature, the specific content within the set of mutual obligations of the two parties is generally the basis for determining the extent to which the contract is more relational (longer term, open-ended, involving intangibles, e.g. celebrating the employee's birthday) vs. transactional (i.e. short-term in duration, highly tangible and well specified outcomes and terms, e.g. rate of pay, voluntary or involuntary overtime). Similarly, psychological contract theory views incongruence between the perceived mutual set of obligations held

by employee and organization as an important cause of violations (Morrison & Robinson, 1997; Rousseau, 1995). Conversely, the employment relations literature is concerned, not with perceived mutual obligations, *but with what is actually exchanged* by the two parties especially in light of recent and fairly dramatic changes in the relationship (Capelli, 1999; Kalleberg, 2001).

(3) *Determinants of outcomes.* *Violations in contract verses balanced or unbalanced nature of the exchange.* Discrepancies or violations between what the employee believes has been promised by the organization and what is actually delivered play a large role in shaping the individual's attitudes and behaviors in psychological contract theory and research (Robinson, 1996). Conversely, the drivers of employee group and organizational level attitudes and performance within the employment relations literature is both the level of investment that parties make to one another and the degree of balance or imbalance between their respective levels of exchange (Shore & Barksdale, 1998; Tsui et al., 1997).

Summary

In combination, similarities and differences in the psychological contract and employment relationship concepts suggest some important directions for future research on the employment exchange. First, the tendency of each concept to focus on the perspective of a different party and outcomes at a different level of analysis identifies a need for greater conceptualization across the two areas. Such an integration would serve to provide a better synthesis of the two perspectives comprising this exchange and an examination of the within and across level linkages of relevant process variables and outcomes.

Second, growing evidence of differences in the drivers or determinants of outcomes proposed by each body of research, i.e. fulfillment of obligations vs. the level of and balance in the content of exchange, suggests the need for studies comparing the two in terms of both relative power and comprehensiveness. It is certainly possible that each may provide a stronger explanation of outcomes at distinct levels of analysis but it is also possible that the level of and balance in what is actually exchanged between parties, rather than the extent to which obligations are fulfilled may be the more powerful determinant of individual level attitudes and behaviors.

Finally, both conceptual research on the employment relationship and empirical research on the nature and causes of variability within the set of human resource practices used by organizations have raised questions about the tendency of researchers to assume that employers within an industry or within a firm do or should form the same kind of employment relationship with employees or different employee groups. In combination, this work has advanced arguments that such variability in employment practices and subsequently, in the employment relationship is not random but rather reflects other differences in organizational

core competencies (Capelli, 1999), the nature of the customer market (Sherer & Leblebici, 2001), the relative contributions of human and other types of capital, such as technology, to the production process (Lepak, Taylor, Tekleab, Marrone & Cohen, 2003) and strategic value and uniqueness of the contributions different employee groups make to their firm (Lepak & Snell, 1999). We concur that it is important for further research to explore the determinants and effects of such variability in employment relationships within and across organizations.

INTEGRATING THE ORGANIZATION'S AND EMPLOYEE'S PERSPECTIVES

As the previous sections of this article indicate the literature examining the EOR can generally be described as taking two separate perspectives either looking at the relationship from the organization's perspective or from the employee's perspective. While there is value in increasing the amount and breadth of research on the organization's psychological contract, given the large and diverse body of research existing on the employee's perspective, ultimately, the greatest value appears to be in integrating the two bodies of knowledge and studying the relationship jointly from the perspective of both parties. However, several issues currently seem to constrain researchers' ability to integrate the two perspectives on the employment exchange. One issue to be addressed in this section is the extent of agreement or congruence that is necessary to capture the EOR and understanding the mechanisms contributing to different perceptions of the employee-organization agreement. Another challenge in integrating the organization and employee perspectives is to explicitly address the multi-level aspects involved in understanding the EOR. We conclude this section of the article discussing the challenge of focusing on the actual relationship rather than the perceptions of each party.

Agreement vs. Congruence

Rousseau's definition of the psychological contract (1990, 1995) did not require that the individual employee and the organization agree as to the obligations to each other, since the focus is on the employee's perspective exclusively. And, in fact, there is evidence that employees and their managers do not agree (Tekleab & Taylor, 2001).

In the inducements-contributions model, it is assumed that the organization, and all the relevant agents, are consistent in making investments in all individuals

occupying a specific job or family of jobs and communicating the expected contributions on the part of the job incumbents. Therefore, unlike the psychological contract model, there should be agreement among agents of the organization and job incumbents as to the investments and the expected contributions. However, social comparison processes may operate to create disagreement among job incumbents as to what the inducements and contributions actually are (Folger & Kass, 2000).

If these two models are to be integrated, then the issue of agreement between the organization's understanding of the EOR and the employee's understanding of the EOR needs to be addressed. It is necessary to understand why different perceptions of the EOR arise as well as the role of differing perceptions in creating misunderstanding.

Why Different Perceptions of the Agreement Arise

There are multiple reasons why employees and employers will tend to develop and possess a different understanding of the agreement they share (Morrison & Robinson, 1997, 2004). Morrison and Robinson have identified at least three sources of these discrepancies in perceptions: divergent schemata of the employee and employer; the complexity and ambiguity around employment contracts; and miscommunication between the two parties.

Both employees and employers come to the employment relationship with different cognitive schemata, which shape, guide and influence what they observe, remember, and interpret in the employment relationship (Fiske & Taylor, 1984). Each person, and thus each employee and employer, will hold a somewhat unique schemata. Because schemata are formed from experiences, the differences in schemata will be enhanced when the employee and employer come from very different educational backgrounds, work experiences, industries and cultures. These differences in schemata will result in the employee and employer remembering, interpreting and perceiving their shared experiences and communication somewhat uniquely and thus they are likely to end up with very different understandings of the agreement between them.

The very nature of employment agreements and obligations also contribute to the occurrence of divergent perceptions of the employment agreement. The EOR is complex, and the myriad of shared obligations between the employee and the employer is often enormous. As a result, it is likely many obligations may be overlooked, or forgotten. In addition, often the obligations with employees are implicit and ambiguous. For these reasons, employees and employers are likely to put their own spin on those obligations, and fill in missing information with their

own biased interpretation (Griffin & Ross, 1991). The result of this complexity and ambiguity is that the employee and employer are likely to hold quite different and unique interpretations of their agreement.

Finally, amount and quality of the communication between the employee and employer can contribute to the degree of misunderstanding between them. The degree of effective and extensive communication at the outset of the relationship, when most obligations are formed, may greatly influence how much disagreement between the employee and employer arises. In addition, ongoing communication throughout the relationship will play a significant role, especially in turbulent environments when conditions and thus the terms of the employment agreement may change. However, effective communication is not always present. Status differences between the employee and employer, for example, may contribute to communication difficulty. Moreover, the "false consensus" effect (Ross, Greene & House, 1977) leads the employee and employer to assume that they share the same understanding of the agreement when in fact they may not and because of this bias, they do not discuss it or resolve the discrepancies between their perceptions.

The Role of Differing Perceptions in Creating Misunderstanding

In most EORs, the employee and the employer will possess a different understanding of the obligations of each party as well as how well each has fulfilled their obligations. These divergent perceptions of the employee and employer will invariably produce misunderstanding, conflict and contract breach. Each party will only provide that which they believe they owe to the other; thus, if one party believes the other is obligated to provide a particular contribution yet the obligated party is unaware of that obligation, they will invariably fall short of delivering it. Likewise, if one party perceives the other has failed to fulfill some obligations but the other party does not share this perception, it will remain difficult to rectify this transgression and thus a sense of violation and conflict is likely to ensue.

Multiple Levels of the EOR

Thus far, we have presented evidence that the EOR occurs at multiple levels and has multiple inputs from varying levels, including organization, job, and group. Clearly in organizations, no single level, be it the individual, group, or organization, can completely account for individual behavior or group and organization performance. The EOR is shaped by actors (individuals, senior executives) and entities (work groups, human resource departments), reflecting an

array of hierarchical levels and social complexity. Individual workers, managers, co-workers, executives, their interactions and the organizational structures these can comprise all shape the employment experience. But studies of EORs need a starting point. EORs are studied differently depending on whether the focus is on the individual (e.g. psychological contract, Coyle-Shapiro, 2000; Rousseau, 1995), the supervisor-subordinate exchange (e.g. mutuality of agreement, Dabos & Rousseau, 2004) the work group or bargaining unit (e.g. normative contracts, Nicholson & Johns, 1985; or labor contract, Landers, Rebitzer & Taylor, 1996), or the firm (e.g. human resource strategy; Huselid, 1995; Rousseau & Wade-Benzoni, 1994). Ultimately a multilevel perspective is needed to identify the principles that enable a more integrated understanding of phenomena that unfold across levels (Kozlowski & Klein, 2000). Multi-level issues surrounding EORs include (but are not limited to) different levels of authority and organizational complexity, top/down cross-level effects, bottom-up cross-level effects, frog ponds and parts-to-wholes, and aggregated global assessments of the employment relationship.

The Parties to the EOR

The parties to the EOR exist at different hierarchical levels. These levels impact each party's influence upon others as a function of authority, social distance, and complexity. Like power, the EOR, is inherently multi-party, with actions and reactions among them that shape the meanings each party attaches to the relationship (Brass, 2000).

In individual-level studies of EORs, one initial question is who the focal individual believes to be his or her exchange partner(s). Different types of commitments and consequences can result when an individual's partners to the psychological contract are team members, as opposed to managers, or the employing organization generally (Rousseau, 2000). Individuals can construe their exchange to involve numerous "principals" including the firm, their immediate manager, senior executives, team members, and even the State (see Loic Cadin's (2000) description of psychological contracts in France). These principals can play multiple roles, sometimes acting as agents for the firm, other times as principals in their own behalf (e.g. immediate managers, senior executives). As Guest and Conway (2000) note:

... employees at lower organizational levels with only a vague understanding of the formal authority levels above them perceive middle-ranking individuals as key representatives of the organization; however, these selected individuals were unlikely to consider themselves as representing the organization (p. 11).

Workers report that their exchange partners can be as diverse as the firm itself, its top management, their immediate boss, the team, a client or customer (Rousseau,

2000). Little research exists examining whether having several distinct focal others impacts the nature of the psychological contract or its dynamics under conditions of change or violation. It is evident that psychological contracts are shaped by a broad array of exchanges and cues. In a longitudinal study, Coyle-Shapiro (2001) found that a manager's own psychological contract impacted how that manager interpreted the firm's obligations to its employees generally and how well it fulfilled those obligations. Although more work is needed on how managers, team members, and others shape the psychological contract, it is apparent that a complex web of exchanges is operating.

Simultaneous consideration of different parties' frames of reference is important to understanding employment as a *relationship*. In particular, joint consideration of worker and supervisor perspectives on the EOR yields valuable insights. Coyle-Shapiro and Kessler (2002) demonstrate that workers and managers have somewhat different views regarding the terms of the EOR and the extent of each party's fulfillment of its obligations. This study finds initial empirical support for the norm of reciprocity in the employment relationship and for a causal link between obligations and fulfillment. In a similar study, Porter, Pearce, Tripoli and Lewis (1998) report that the greater the gap between executive and worker beliefs regarding the inducements the employer offered to workers the greater were levels of employee dissatisfaction. Interestingly, a substantial number of employees reported greater amounts of inducements than did the executives representing the employer. Again as in the case of Coyle-Shapiro and Kessler (2002) executives described inducements in terms of broad organizational practices rather than those specific to exchanges with individual workers. Lastly Ho, Ang and Straub (2003) report that supervisors who continued to work with information technology workers after those individuals have been outsourced, held the same psychological contract with those workers, and continued to see themselves as the workers' boss despite the shift in the nature of the formal employment relationship. In contrast, outsourced workers no longer viewed their former boss as their current supervisor.

Another study focused specifically on dyadic agreement between individual worker and the employer. Dabos and Rousseau (2004) used matched pairs of managers and workers where each reported on the commitments they had made to the other and where workers reported on their beliefs regarding their manager's commitments to them. This dyadic study found that agreement on the managers' obligations (mutuality) was consistently related to performance and retention, as was agreement between manager's obligations and those of workers (reciprocity). Further, the effect of agreement was greater than each individual party's psychological contract assessment.

We need more research on the conditions under which agreement among the parties to the EOR is likely to occur. Results to date indicate that differences exist

in the beliefs that workers have regarding their EOR relative to the perspective of their managers or senior executives. Although certain human resource practices such as equity and profit sharing are posited to promote agreement among parties at different hierarchical levels regarding workers' psychological contracts (Rousseau & Shperling, 2003) little direct evidence exists of factors giving rise to agreement regarding employment relations. However, findings also suggest that where agreement exists its affects are positive and substantial.

Top-down cross-level effects. Top-down processes can introduce specific obligations and contingent beliefs into the psychological contract via human resource practices (e.g. contingent pay). Similarly, in the form of work group social influence such processes can shape member's beliefs regarding the degree of fulfillment. For example, information people derive from their organization-based social networks impact their beliefs regarding how well their employer has fulfilled their psychological contract (Ho, 2002). Top-down processes can both introduce content into the EOR as well as constrain its variation across individual workers, impacting the flexibility for individual employment relationships to differ from one worker to another (Rousseau, 2001).

To date, there is little research on the direct effects of higher-level processes on individual psychological contracts. However, there are suggestive findings regarding within-unit variation in individual psychological contracts. Dabos and Rousseau (2004) found little within-unit agreement on the psychological contract dimensions in their sample of research scientists. Rather, individual research scientists within the same work unit displayed variation in their psychological contracts despite having the same manager. Nonetheless, those workers did tend to agree with their manager (the research director) regarding the terms of the psychological contract. When these two parties agreed, this evidence of mutuality was positively related to performance and retention. The top-down effects are manifest as differential employment relations between managers and workers consistent with those observed in research on leader-member exchange (e.g. Graen & Uhl-Bien, 1995). In all, evidence of agreement in psychological contract terms appears to be greater for individual workers with their manager than among workers themselves within the same unit or work group.

Bottom-up cross-level effects. Bottom-up effects refer to emergent phenomena arising due to attributes and predispositions of individuals or interactions among groups, that is, from characteristics of lower-level actors and entities within an organization. The psychological contracts of workers can impact the work groups and firms in which they are embedded. In particular, social networks can shape worker beliefs regarding their EOR, which in turn can give rise to normative

beliefs that become organizational realities (Ho, Levesque & Rousseau, 2003; Nicholson & Johns, 1985). Such effects have been used to characterize the link between individual and team learning (Goodman, 2001) and between group processes and organizational culture (Martin, 1992). Levesque (2001) finds evidence of role making on the part of first incumbents of positions in start up firms where actions taken by initial incumbents constrain the subsequent roles that later incumbents fill. Research on emergent processes tell us that what we think of as social structure or organizing has its origins in the on-going experiences of individuals seeking to create an effective, satisfying and somewhat predictable role for themselves in organizations (Weick, 1996).

Frog-pond (parts within wholes). Where individuals stand in relation to the others in the larger work group or organization and how that shapes their attitudes and behavior constitutes a "frog pond effect" (Firebaugh, 1980; Rousseau, 1985). Such effects call attention to the origins and consequences of within-group heterogeneity in the terms and conditions of the employment relationship. Research in social psychology and economics reminds us that social comparison processes underlie many aspects of exchange relationships, in particular the standing individuals hold relative to others in their work and social groups (e.g. Frank, 1985). In particular workers are likely to derive information regarding the nature of the EOR from the treatment they receive relative to co-workers and other referent others. Whether workers believe their employers have kept their commitments has been found to be related to the quality of treatment *co-workers* report, a finding that suggests that comparison processes are at work (Ho, 2002).

In a study of idiosyncratic EORs, where individual workers report having received treatment different from their peers, Rousseau and Kim (2003) find that this special treatment gives rise to significant within-unit effects upon the quality of co-worker employment relations. Specifically, in those departments where certain individuals had negotiated idiosyncratic deals, their co-workers were more likely to report procedural and distributive injustice than were workers in units where such special deals were absent. Though limited, such findings suggest that co-workers are important sources of information to individuals about the nature of their relationship with the employer, its quality, and extent of fulfillment.

Aggregated and global assessment. It is not evident (yet) that psychological contracts of individuals can be aggregated to create meaningful indicators of work unit-level employment relationships. Aggregated variables often measure a different construct than their namesake at the individual level (Firebaugh, 1978).

To date, evidence points to within-unit heterogeneity in individual beliefs regarding their psychological contract with an employer and to functional outcomes of individual – manager agreement on the terms of that individual's particular employment relationship. Nonetheless, it can be helpful to consider the conditions under which EORs might constitute meaningful unit-level or organizational constructs.

The meaning and operationalization of employment can vary depending upon the unit of analysis. Whether individuals within a similar job or the same work group have comparable conditions of employment is an empirical question and depends on the characterization of employment. Many firm-level studies of employment use archival data such as company records to derive indicators (Ichinowski, Shaw & Prennushi, 1997). If information such as job titles are the source of employment information, scholars may construe that the workers with the identical titles have the same employment relationship. However, individuals may construe their employment relationship differently despite such apparent surface similarities. It is an empirical question what the functional relationship might be between individual-level psychological contracts and broader characterizations of the EOR (e.g. occupational categories, normative contracts, etc.).

We can find some guidance in Kozlowski and Klein's (2000) conceptualization of how apparently similar constructs across levels might be inter-related. They differentiate the *composition* condition where comparable phenomena occur across levels (e.g. work group and organization climate, individual and organizational trust) from the *compilation* condition where there are discontinuities across levels among phenomena from a common domain (individual and group learning). Constructs reflecting compilation are characterized by distinct underlying causes across levels. Thus individual learning is highly subject to the influences of skill and predisposition while group learning is more driven largely by relations among members. Learning in each involves fundamental changes in behavior but the factors that give rise to this at different levels are not the same. In contrast, composition conditions reflect common causal mechanisms across levels. What little research there exists to date suggests that operationalizing EORs in terms of psychological contracts generates a high degree of within unit variability. At one level, there is little support for characterizing group or organization-wide employment relations in terms of psychological contracts paralleling those of individuals. However, it is too soon to tell. The level of detail and specificity with respect to operationalizing EORs varies considerably in research on the psychological contract (Rousseau & Tijoriwala, 1998). It may be the case that at the broadest and most general level of types of EORs such as relational or transactional, within-unit agreement may be greater than at the level of discrete obligations. We need to

develop theory on the causal processes underlying features of the employment relationship in order to be able to effectively explore its possible multi-level nature.

Are We Examining Two Sides, or Should We Focus (More) on the Relationship?

Up to this point in time it seems safe to say that an examination of the total body of scholarly literature that has been produced on EOR issues would show a preponderance of emphasis on either one or both of the two parties to the relationship rather than on the relationship *per se*. The issue is: going forward, will we make greater research advances by a relatively stronger focus on the relationship as such, rather than on the attitudes and behavior of the employee and/or the organization?

It is not surprising that much of the research to date has centered on one or the other of the two parties to the relationship, especially the employee. If any type of relationship is to be studied, it makes good analytical sense to decompose the relatively complex phenomenon into its constituent elements and intensively examine the nature of those elements. This the field has done up to now – although some would argue that the “O” (organization) side has been somewhat neglected in comparison to the “E” (employee) side. There is still more to be learned, of course, about how each of the two parties approach and implement the EOR, but it is probably useful to consider what might be gained in the future if the relationship *per se* were to become a stronger object of focus.

The term “relationship” involves the condition of being connected and associated together. Thus, a focus on the EOR would mean attention to the *interaction* of the two parties, just as a focus on marriage as a relationship would involve attention to the interaction of husband and wife, not just to what each party brings to, and obtains from, the relationship. Clearly, as has been pointed out already in this article, if a relationship involves interaction it also involves exchanges, and thus the broader literature on exchange theory becomes relevant to understanding the particulars of EORs. The emphasis then becomes one of concentrating on both the content (what is exchanged) and, especially, the process (how the exchanges take place) of the interactions between the parties.

What are some of the implications of a more intensive research focus in the future on the exchange-based relationship between E and O? Two of the more important will be mentioned here and then discussed further in the next section. For one thing, the effects of *context* on that relationship will likely receive more attention than has been the case so far. EORs, just like marriages, are likely to be highly affected

by both the micro and macro environments in which they take place. A marriage relationship coping with economic distress of one or both parties is likely to have a quite different character than one that is occurring in relatively benign economic conditions. Likewise, a marriage dealing with a difficult child is undoubtedly a different relationship than one with no children or at least no problem children. In the case of EORs, we know relatively little in a systematic way about which context factors – such as organizational stresses, group and organizational norms and culture, employee personal circumstances – are most critical. Which aspects of the context, for example, are most important for building mutually positive EORs, and which hinder their development? Equally importantly, we lack solid knowledge about how such factors impact the ongoing exchange interactions between the two parties. What are the mechanisms that cause a factor to be important or trivial? These and similar questions would appear to form a fertile area for future research activities.

A second and related implication of focusing more directly on the relationship of E and O would be that the *dynamic nature* of the relationship across time would receive much more concentrated attention than it has so far. Clearly, the EOR, like marriage or any other social relationship, does not stay static from one time period to another. The evolving nature of the EOR through time certainly has to be one of its more interesting features for study and understanding. Yet, that aspect, like context, is under-nourished in terms of scholarly attention. Is there an E-O equivalent, for example, to a product lifecycle? Are there highly different shapes of developmental cycles of EORs across different types of organizations, across different individuals? Are relationships smoothly continuous or highly discontinuous? These are just a few of the intriguing types of issues that would benefit from more illumination if attention is directed toward the changing and developing nature of EORs.

It should be acknowledged, of course, that placing a greater research focus on the relationship of E and O will not be easy to implement. Measuring “relationships,” especially interactions between E and O – vs. measuring some simple types of social interactions or measuring the attitudes and behavior of individual Es or the actions and policies of Os – involves considerable challenges. It particularly requires the necessity to make many inferences from data, much of which will be indirect. After all, for example, at least some of the interactions of an individual with another individual (e.g. a supervisor), or with a group, can be videotaped for analysis. It seems rather difficult, however, to imagine videotaping an employee interacting with her organization! Despite such obvious research methodology obstacles, however, the benefits of investigating the relationship qua relationship of employee and organization seem worth the efforts and costs of undertaking the challenges.

THE ROLE OF CONTEXT AS A LOCUS OF OBLIGATIONS

Although numerous researchers have emphasized the importance of context as a critical factor that influences EORs (Cappelli & Sherer, 1991; Hackman, 1999; Johns, 2001; Mowday & Sutton, 1993; Rousseau & Fried, 2001), most research on the EOR ignores the role of context or treats it as peripheral rather than central. In a broad sense, context is the locus of obligations surrounding EORs. Thus, work relationships are embedded in context.

Our purpose here is to highlight the increasingly critical role of context and provide an organizing framework that can guide future research that focuses explicitly on the effects of context in employment relationships, rather than including it as an addition or after-thought. First, we briefly mention current trends that accentuate the importance of context. Second, we discuss the meaning of context. Third, we integrate recent work on the changing nature of work and work contexts to develop a preliminary framework for guiding research that aims specifically to consider the role of context in employment relationships. Fourth, we discuss the trend of increasingly nontraditional work arrangements that are not reflected in models of the EOR. Finally, we discuss the impact of the legal context on the EOR.

Current Trends that Accentuate the Importance of Context

Recently, globalization and competitive demands have increased the diversity in types of individual-organizational linkages. For example, many people now work in non-traditional roles and have non-traditional work status (contingent, on-call, part-time, temporary, expatriate, and foreign status) or work locations (telecommuting, satellite offices, and virtual teams) (Gephart, 2002; McLean Parks & Kidder, 1994; Rousseau, 1997; Sherer, 1996). One key outcome of these trends is increased diversity in the types of contexts that are relevant to EORs. For example, although some employees still work traditional hours at one specific location, many employees perform their work at different times (e.g. evenings, weekends, rotating shifts, on call 24-7) or in different locations (e.g. at home, on the road, electronically across national borders).

Thus, we argue three key points. First, it is increasingly important to acknowledge the effects of context on the EOR. Second, context is not homogeneous, but rather it can differ substantially from one individual or type of relationship to another, even for those performing the same work for the same organization. Third, future research should examine differences in context as a primary research question that can influence the locus of obligations in EORs.

What is context? At the most basic level, context is the setting, or what surrounds, the locus of obligations. Context contains the terms and conditions of the relationship. Accordingly, context presents both constraints and opportunities (Johns, 2001; Mowday & Sutton, 1993) that influence the links or connections that individuals and organizations are able to make with each other and with other entities (Rousseau & Fried, 2001).

Context is multi-faceted and multi-dimensional. There is no such thing as "one context" for an individual or for an organization. Instead, each EOR is embedded in multiple contexts that all can exert influence simultaneously. For example, an individual in a traditional job might be embedded in nested contexts involving the job, work group, department, division, organization, occupation, labor market, family and national culture. Within the organization, social, physical, and structural aspects of context might also influence the relationship. Alternatively, an individual might be nested simultaneously in multiple jobs in multiple organizations. For example, part-time workers might have relationships with multiple organizations. Still yet, a contingent worker might not be nested in a job or in an organization but might be embedded primarily in the occupational or family context. Finally, an expatriate or foreign worker might need to function simultaneously in multiple national cultural contexts.

In sum, we argue that context is complex; it is multifaceted and multidimensional. This is important for research on the EOR because it suggests that different aspects of context will have differential relevance for different types of relationships. Multiple contexts can represent complementary interests and demands. More often, however, different contexts represent competing interests and demands that will differentially influence interpretation of obligations and fulfillment from the perspectives of both individuals and organizations. Thus, there is no one context and it is important for researchers to recognize the simultaneous influence of multiple internal and external contexts.

Given this complexity in the conceptualization of context, it is important to consider which aspect or aspects of context should be considered in any particular piece of research. Here, we recommend the benefits of research questions focused specifically on context effects. In each case, it would be important to select aspects of context based on the unique salience of specific contextual factors for the particular relationships being contrasted. In other words, we recommend that researchers consider context as a primary substantive construct, based on theory, rather than as an ad hoc, add-on to other research studies. This would avoid repetition of some of the problems encountered, for example, in the early research on personality where individual differences were tacked onto other studies without a clear conceptual focus on personality as the basis of the research question (Mischel, 1977).

Preliminary Framework for Thinking About the Multiple Contexts of Relationships
 To date, most conceptualizations of context adopt a systems perspective where aspects of context are nested within each other (Katz & Kahn, 1966, 1978). As argued above, we propose that individuals are not necessarily nested in contexts and that multiple contexts co-exist, often with conflicting orientations or conflicting demands. Recently, the Department of Labor developed a comprehensive, new framework to serve as a guide to the labor exchange process (Dye & Silver, 1999). This new approach replaced the *Dictionary of Occupational Titles* with *O*Net* and emphasized the changing world of work (e.g. flexibility, adaptability, horizontal relationships) instead of traditional, mechanistic, and hierarchical approaches to thinking about jobs and work relationships.

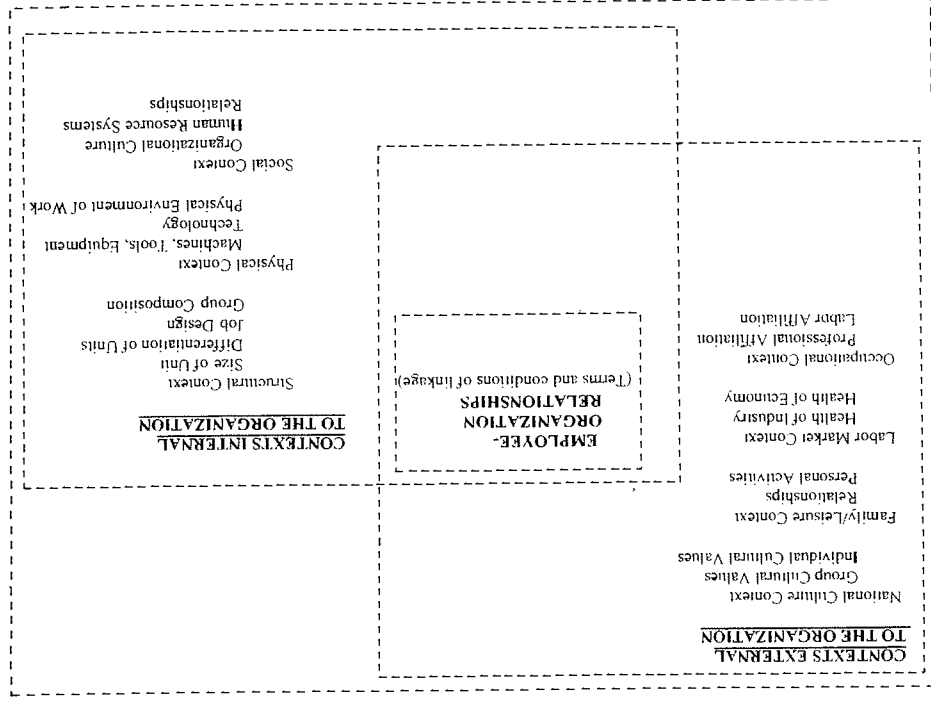
In developing O*Net, a large task force of researchers began by developing a series of white papers that dealt with various aspects of contemporary work relationships. Several of these papers focused on context and identified a wide variety of cross-level contextual effects both external (Arad, Hanson & Schneider, 1999) and internal to the organization (Strong, Jeanneret, McPhail, Blakley & D'Egidio, 1999). We draw on their work in specifying seven key categories of contextual effects (four external to the organization and three internal) that form the basis of Fig. 1, a preliminary framework for thinking about the multiple contexts of EORs.

Examining Fig. 1 highlights several key aspects of our conceptualization. First, we do not assume that contexts are necessarily hierarchically nested. Second, we do assume that there is one or one primary EOR. Third, we do not assume that all aspects of context are relevant to all EORs. Instead, the figure illustrates contexts that may not be nested; it allows for multiple EORs; and it shows that multiple aspects of context may be salient at the same time.

Contexts external to the organization include National Culture Context (Group and Individual Cultural Values), Family/Leisure Context (Relationships and Personal Activities), Labor Market Context (Health of Economy and Industry), and Occupational Context (Professional Affiliations and Labor Affiliations). Contexts internal to the organization include Structural Context (Size, Differentiation, Job Design, and Group Composition), Physical Context (Machines, Tools, Equipment, Technology and Physical Environment of Work), and Social Context (Organizational Culture, Human Resource Systems, and Relationships).

Consistent with our prior arguments about the importance of context in differentiating contemporary work relationships, we suggest the benefits of future research that focuses specifically on the role of context as the primary research question. We also propose that future research should identify specific aspects of context to include in a particular study, based on conscious conceptual

Fig. 1. Preliminary Framework for Thinking About the Multiple Contexts of Employee-Organization Relationships.



comparison of different work roles and while acknowledging the possibility of multiple individual-organizational relationships and multiple contexts.

Changes in Formal Work Relationships

Models of work relationships for the most part have been based on notions of a "traditional" full time worker, frequently ignoring the armies of non-"traditional" workers who report to work every day, work the same hours and schedules and do the same jobs as their colleagues. "Traditional" work arrangements are those with "either an implicit or explicit understanding that employment will be continuous or ongoing, assuming satisfactory performance by both the individual worker and the organization" (McLean Parks, Kidder & Gallagher, 1998, p. 19). Yet, even assuming such a worker truly is the traditional norm, this norm comprises a steadily smaller part of our economy. Empirical research only sporadically reports whether samples are "traditional" or non-"traditional," unless the focus of the research is on specific differences between the "traditional" workers' attitudes, behaviors and performance and those of a specific type or class of contingent worker (e.g. temps, floats, contract workers). Further, because of the plethora of shifting categories that have been used to label contingent work, little is known about them that can be generalized. These non-"traditional" workers come from a variety of industries and occupations, and across different levels in the organization hierarchy. Consequently, their work relationships vary significantly. In addition, they vary in terms of how long they have been at a given site and how long they expect to continue, they vary in terms of how many different companies they are working for, their expertise and asset specificity, and the degree of control they exercise over their work. These non-"traditional" workers have faded into the background and become the invisible workers of organizational research.

As a result, with few exceptions, our models of organizational behavior are impoverished, only weakly able, if at all, to accommodate more complex perspectives and work arrangements. It is critical at this juncture that models of work relationships encompass all types of workers. Omitting non-"traditional" workers, implicitly or explicitly, from our theorizing and research leaves out what may soon become the majority of our workers; as a result, our ability to contribute to the understanding of work relationships potentially will be limited. This section focuses on the implications of less "traditional" workers for research in organizational behavior, and more specifically, research on exchange relationships between workers and their organizations. First, however, before turning to a discussion of the redirection that the changing "traditional" nature of work necessitates, we briefly discuss the current state of non-"traditional" work in the labor pool and provide a brief history of the nature of non-"traditional" work.

Non-"traditional" Work

Over the past several years, deregulation, a volatile and uncertain economy, and pressures of globalization have resulted in a movement of workers from non-contingent to contingent work. As a result, the U.S. labor force now is nearly a contingent (BLS, 1995), made up of an army of temps, part-timers, floats, seasonal workers, day laborers, consultants and independent contractors. Although we focus on statistics from the U.S., like many other exports, contingent work increasingly is becoming a part of the labor supply in Europe and Asia (Barker & Christensen, 1998; Hartley, 1995; Matusik & Hill, 1998; McLean Parks et al., 1998; Van Dyne & Ang, 1998).

Today, the workforce is increasingly non-"traditional." Temporary employment, just one form of non-"traditional" work, accounted for one out of every thirteen new jobs created in the late 1980s (Henson, 1996). By 1993, temporary employment accounted for 15% of all new jobs (Lewin, 1994). Now that number is 20% (CPA, 2001). Use of temps has increased by 400% since 1982, and the practice is still growing (Klein, 2002). In 2001, an average day might see almost 3 million Americans working as temps (CPA, 2001). The Bureau of Labor Statistics (2001) reported that 8.6 million workers identify themselves as independent contractors, 2 million workers identify themselves as "on call" day laborers, 1.2 million identify themselves as working for temporary help agencies, over half a million identify themselves as working for firms that provide services to a client at the client's work site, 23 million identify themselves as part time workers, and 7 million identify themselves as holding multiple jobs. What is clear from these numbers is that organizational research and models that do not incorporate the non-"traditional" worker in their empirical research and methods, as well as their theorizing, are in danger of becoming obsolete.

With the movement towards a less "traditional" workforce as a backdrop, the time has come for researchers in organizational behavior to engage in a discussion concerning the extent to which the current prevailing theory and research pertaining to organizational relationships is readily applicable to the growing number of workers who are non-"traditional," or a workforce in which a sizeable portion of the workers are non-"traditional." McLean Parks and Smith (1998), building on an earlier paper (McLean Parks, 1993), pointed out that the literature on organizational contracts makes several stringent assumptions in the treatment of exchange relationships, two that are key in the present context: (1) that the exchanges are voluntary; and (2) that power between the parties is symmetric. In their 1998 paper, McLean Parks et al. explicitly explored theorizing as it related to psychological contracts for both "traditional" and non-"traditional" workers. As a result, they argued strongly that work arrangements should not be described

in terms of somewhat arbitrary and ill defined categories, such as temporary workers, contract workers, part time workers, and the like, but rather should be conceptualized along the dimensions of the psychological contract. In attempting to capture the complexity of non-“traditional” work relationships, these authors found it necessary to specify additional dimensions, including multiple agency and volition (McLean Parks & Smith, 1998). In a similar vein, Gallagher and McLean Parks (2001) argued that current models of worker attitudes, such as commitment, are rather sterile in their present treatment, lacking the conceptual richness necessary to accommodate non-“traditional” work relationships. We identify several factors and considerations critical to incorporating non-“traditional” work relationships into current models: (1) a multiple party context; (2) multiple agency relationships; and (3) volition and potential power asymmetries.

Implications of a Multiple Party Context

McLean Parks and Smith (1998) suggested that the “entire network or fabric of related exchanges in which the contracting parties are involved is important.” Worker attitudes are impacted by the attitudes of those around them (Ibarra & Andrews, 1993), and consequently, we might expect the attitudes of the non-“traditional” workers – positive or negative – to diffuse through the workplace as the relative ratio of non-“traditional” workers increases. At the very least, workers may develop psychological contracts through “vicarious contracting.” (Rousseau & McLean Parks, 1993) by inference from the observable patterns of exchange observed with other workers, through their own process of negotiating the deal or through contract “drift,” making the exchange relationships of other workers part and parcel of the process. The trust that greases the wheels in organizations and workgroups may diminish as the relative ratio of non-“traditional” workers increases (Pearce, 1993), due perhaps to equity considerations stemming from the presence of multiple “types” of workers in filling the same role, with potentially different treatment by the company. Consequently, understanding the impact of the make-up of one’s workforce may be critical in understanding the antecedents of worker attitudes and behaviors important to the organization, such as commitment, trust, and extra-role behaviors.

Implications of Multiple Agency Relationships

McLean Parks et al. (1998), developed the notion of “multiple agency,” which was necessary to capture more unique aspects of non-“traditional” work relationships

that may differentiate them, to a greater or lesser extent, from more “traditional” work relationships. In the case of some non-“traditional” work relationships, a worker’s contributions can simultaneously fulfill obligations to more than one company. For example, temporary accountants can simultaneously fulfill their obligations to the temporary firm that places them as they complete the work required for the client firm. It is this simultaneity that creates multiple agency relationships, or a nesting of the obligations and work relationships. According to McLean Parks et al. (1998, p. 19), “A multiple agency relationship exists when an act by a [worker] simultaneously fulfills obligations to two or more entities, with full knowledge and sanction from both.” From the company side of the equation, company actions can simultaneously fulfill obligations to the worker, as well to another entity to which the worker is ideologically attached. For example, Ben & Jerry’s One-Sweet-Whirled® flavor brings attention to global warming. In addition, Ben & Jerry’s has committed to reducing the carbon dioxide emissions of their manufacturing facilities by 10% in five years. Both actions simultaneously serve the campaign against global warming and the goals of workers who are ideologically attached to these issues, exchanging ideological currency with Ben & Jerry, rather than just the economic and socio-emotional currencies.

Implications of Volition and Power in the Work Relationship

Much early theorizing implicitly assumes that, through purposeful intent and actions, workers not only have accepted the terms offered them, but did so willingly and without desire to modify the terms. As noted by Staber and Aldrich (1989), “purpose is deeply embedded in current models of business strategy and organizational transaction, but such veneration of purposeful behavior has partially blinded us to other forces . . .” (p. 112). One of these forces may be the relative power between the parties. McLean Parks (1993) argued that contracts could only be assumed to be voluntary to the extent that the parties had equal power. If power was asymmetric, the relationship involved a contract “maker” (more powerful party) and a contract “taker” (less powerful party, McLean Parks & Smith, 1998). Although a contract taker may voluntarily agree to an unattractive deal – a deal which they might actually desire for any number of reasons – the notion of volition is critical to understanding the work relationship in general, and the work relationship of non-“traditional” workers in particular. The degree to which the agreement reflects the wishes, preferences, and needs of the worker likely is a function of the relative power that worker has vis a vis the organization or contract maker. Although extreme, the historical example of slavery would exemplify the contract taker with no choice – not even the choice to remain in the relationship or not. More recently,

workers in Asia making shoes for Nike and Reebok are unable to refuse overtime, an offence punishable by dismissal (Klein, 2002). On the domestic front, American Airlines outsourced its ticket agents in 1993. Some workers who had earned \$40,000 were offered their old jobs back for \$16,000 (Bernstein, 1995). In each of these cases, volition clearly is low for the less powerful party. At the other end of the spectrum are "temporary" CEOs, who peddle their services among corporations, staying an average of only five years (Thompson, 1998). Along similar lines, workers in demand who have skills that are not easily substitutable and who have highly codified credentials (e.g. clearly defined knowledge and problem sets commonly associated with the professions; Tolbert, 1996) are likely to be relatively powerful vis a vis the company. Examples of such workers would be sports and movie stars, specialist physicians, or IT workers during the Silicon Valley boom (Boh, Slaughter & Ang, 2001). Such workers, who are, to all intents and purposes, "temporary" workers, are able to "cherry pick" among jobs, moving frequently from job to job.

These illustrations highlight the fallacy of the implicit assumption that the contracts between workers and organizations are voluntary. More realistically, volition lies along a continuum. At the heart of the variation in volition lies power – whether power is asymmetric favoring the worker over the organization (CEO, physician, IT worker), balanced between worker and organization, or asymmetric favoring the organization over the worker (ticket agents, migrant workers). Non-"traditional" work relationships are one area where the implicit assumption of equal or nearly equal power is a critical omission by empiricists and theorists (whether by explicit delineation or benign neglect of the issue). Incorporating volition and power thus become central factors in models of organizational relationships that are rich enough to include all types of workers, not just "traditional" workers. Whether power is symmetric, or whether one is a contract taker or a contract maker has implications for a broad range of factors, including differential reactions to breach and violation for the contract maker and the contract taker, how behavior is governed or enforced, whether reactions to an ideological breach will result in exit, whistle blowing, or principled organizational dissent, and the metric of justice that may be applied (Edwards & Bunderson, in press; McLean Parks & Smith, 1998).

Changes in Labor Law

Both current and anticipated developments in labor law contribute to the increasing importance of understanding the EOR. First, there is a growing legal risk associated with the management of employees, and a decreasing ability to manage that threat through informed legalistic responses. As a result, it is becoming more important for organizations to effectively manage their relationships with employees through non-legal means (e.g. good employee relations) in order to avoid negative legal

consequences. Second, trends associated with the globalization of the workforce (e.g. multinational employers, employees working across country boundaries) are straining national systems of employment law, leading to the recognition of a growing need for transnational standards regulating employment relationships. The understanding of EORs from diverse international and multiple disciplinary perspectives (social, psychological, legal) will take on greater importance as policy makers struggle to develop *workable* transnational legal employment standards. Support for these two observations is provided in the sections that immediately follow.

Growing Importance of Non-legalistic Means of Legal Risk Management

In contrast to the rights of employees to engage in collective bargaining and other forms of collective action, which are viewed by many as being under assault world-wide (e.g. Brefort, 2002; Corbett, 2001), in recent decades many countries have experienced a steady growth in the *individual* workplace rights available to employees. For example, it has been observed that since the 1960s the American workplace has evolved from a largely unregulated arena to one that is subject to legal regulation from a myriad of sources (federal, state, and local, and legislative as well as judicial), which provides workers a wide range of individual rights (e.g. protection from discrimination based on sex, race, age, disability and other personal characteristics; family related leaves; protection from retaliation; access to information; protection of personal privacy; Befort, 2002). The widening scope of employee individual rights, together with employees' increased awareness of those rights, led to an "explosion" in the amount of employment litigation in the U.S. (Bliss, 2000; Kohler, 1999).

Other countries have also expanded the scope of individual employee rights, and are experiencing an increase in the employment related claims being filed in courts or tribunals. For example, Ireland's Employment Equality Act of 1998 prohibits employment discrimination based on a broader range of personal characteristics than is covered by U.S. Federal law, including marital status and family status. The act went into effect in 1999, and a year later, the Director of the Office of Equality Investigations reported that claims for discrimination at work had risen by 40% in *the first half of 2000*. The United Kingdom's Employment Relations Act of 1999 expanded the individual rights provided employees under the Employment Rights Act of 1996. Even before the passage of the more expansive employee rights legislation in 1999, the United Kingdom had experienced a doubling of employment discrimination and unjust discharge tribunal claims in the 1990s, leading to concerns about the rising level of "American-style" employment litigation (McCurry, 1999). World

wide, the continued expansion of individual rights in the workplace seems likely, and among the members of the European Union, it is a virtual certainty. Based on the authority of Article 13 of the Treaty of Amsterdam, the Council of Ministers of the European Union adopted proposals which require all member states to make discrimination (direct and indirect) unlawful on the grounds of race, ethnic religion or belief, disability, age, or sexual orientation in the areas of employment.

As a result of the proliferation of laws regulating various aspects of the employment relationship, managers are less able to avoid legal risk through well informed decisions driven by legalistic considerations. Even among those few managers who have the time and resources to keep fully abreast of new regulations and how they are interpreted, and reinterpreted, the growing legal complexity creates dilemmas that cannot be avoided, but only managed.

Under these circumstances, effective legal risk management will need to increasingly focus on the management of the EOR so as to promote goodwill towards employers, and avoid the types of negative interactions that lead to claiming behavior by employees and/or perceived unfairness in the eyes of third parties (e.g. judges, juries). This will be particularly true for the growing number of employers with international operations that are facing simultaneous regulation of their employee-organization relationship by multiple countries. In international contexts, employment decisions that normally involve the analysis of one country law now require multiple, and sometimes conflicting legal analysis.

Development of Workable, Transnational Legal Employment Standards

A growing recognition of the need for transnational standards regulating employment relationships can be found among both workers' rights advocates and business/employer oriented individuals and groups. From the perspective of worker advocates, in the absence of transnational legal standards, pressures emanating from global economic competition (e.g. the perceived need for workforce flexibility and low cost workers) will lead to ever increasing workplace deregulation and the erosion of worker protections through out the world, what has been referred to as "a race to the bottom" (Arthurs, 2001, p. 2; Befort, 2002). From the business/employer perspective, there is a need for transnational standards that harmonize legal principles across national boundaries in order to reduce current uncertainty and facilitate the ability of businesses to carry out their operations as efficiently as possible (Aman, 2000).

Whether motivated by concern for worker rights, or concern for business efficiency, the growing need for *workable* transnational standards regulating the employment relationship further contributes to the importance of understanding

of the EOR. To what extent are there universal norms relevant to the employment relationship that might be the basis for transnational legal standards? It has been argued that the need for "good" or "just" cause in order to discharge an employee fairly is a universal norm (Befort, 2002), an argument that recently received additional support from a review of studies involving American workers – the legal status of the employment at-will doctrine in the U.S. not withstanding (Roehling, 2002). Are there similar widely held norms relating to other issues that employees and employers continue to grapple with, such as privacy in the workplace, employee participation in workplace decisions, and the balancing of work and non-work lives? If there is less evidence of universal norms in these other areas, what is the likelihood that employment related norms may be shaped by the implementation of transnational legal standards? Will a legal scheme, which focuses more heavily on individual vs. collective employment rights, such as the United States, be acceptable across countries and cultures? These are but a few of the questions associated with the development of transnational legal standards regulating employment relationships, and the answers to these questions are far from clear. What is clear, however, is that the development of a deeper understanding of the EOR will enhance our ability to fashion and implement *workable* transnational legal standards regulating employment relationships.

In sum, the changing landscape surrounding EORs suggests the need for theories and models that reflect currency in the world of work. Globalization, competition, and environmental complexity are changing EORs. There are pressures for consistency in "employee rights" as reflected in EORs across cultures and nationalities. At the same time, organizations are increasingly seeking ways to create flexibility in response to environmental pressures, as reflected in the many types of work arrangements that are now part of the domain of EORs. These trends suggest inherent conflicts between the rights of employees and the rights of organizations that will surely shape the content and varying forms of the EOR that emerge.

MECHANISMS FOR THEORIZING ABOUT THE EMPLOYEE-ORGANIZATION RELATIONSHIP

In this section of our article on the EOR, we examine several theoretical lenses that might be used to explain the dynamism, fairness of the employment exchange, relationship role, and integration of employee and organizational perspectives. We begin with an examination of developmental models that reflect changes in the relationship over time and continue with an examination of the role of fairness in the EOR. Subsequently, we consider the possibility of taking a relationship metaphor, as opposed to the contractual one for the EOR and ask what the theoretical

landscape would look like through this lens. Finally, we consider what the relationship might look like if greater attention was given to awarding a higher priority to satisfying the interests of both parties through the collaborative negotiation process.

Developmental Models

This section examines two developmental models that while primarily used by prior research to examine the employee's perspective of the employment relationship may nevertheless assist us in integrating the organization and employee perspectives in the EOR: (1) the relationship as schema model; and (2) the change processes and consequences model. Each allows for changes in parties' perspectives as a function of their experiences and amount of discrepancy between those experiences and the existing schema at the time. We begin with the relationship as schema model.

The Employee-Organization Relationship as Schema Model

Our starting point is a theoretical lens that views the EOR as a belief structure or event schema (Fiske & Taylor, 1984; Lord & Foti, 1986). In the past, research has typically focused on the employee's perspective, in which perceptions of mutual obligations between employer and employee (the psychological contract) is viewed as a schema. This schema includes ideas about the typical sequence of events in a given situation, and serves as a guide for the individual's behavior in the EOR.

Psychological contract schemata develop within a dynamic environment in which the individual interacts with multiple organizational agents (Rousseau, 1995; Shore & Tetrick, 1994). Both the individual employee and the organization (represented by several agents) enter the employment relationship with a set of expectations about mutual obligations. The individual's psychological contract then further develops as a result of the interaction with the organizational environment. In the novel situation of entering the employment relationship, employees will process information related to the EOR mainly in a systematic and controlled, i.e. conscious, way (Rousseau, 1995). For example, Shore and Tetrick (1994, p. 97) describe the development of the psychological contract as a "deliberate goal-oriented process, in which an individual attempts to establish an agreement with his or her employing organization that will address a variety of employment objectives." Later, however, over time as new employees become more integrated within the organization, information processing becomes

more automatic and requires less individual awareness and fewer cognitive resources.

There are several phases in the initial process of developing the psychological contract. It starts with an anticipatory socialization phase, when an anticipatory psychological contract (Anderson & Thomas, 1996) is created based on images formed before entry into the organization. This anticipatory contract is actually a "naïve and imperfect schema about a preliminary deal that identifies what the organization expects its employees to contribute and what rewards employees can expect to receive from the organization" (Anderson & Thomas, 1996). In this stage, organizational agents involved in recruitment and selection and the information they exchange with the prospective employee create anticipatory expectations about obligations. This process involves not only the discussion of formal and written agreements but also the employee's inferences that are often derived from implicit promises without explicit communication (Shore & Tetrick, 1994).

The next phase is the encounter phase, which begins with employment and continues through the employee's initial months at work. In this phase, employees experience the real demands at work, and the benefits and rewards such as salary and recognition. In this phase a more enduring schema of the psychological contract is actually formed and tested (Nelson, Quick & Joplin, 1991). During this time, the employee's actual experiences influence the final development of the psychological contract schema, modifying and replacing the anticipatory psychological contract.

Subsequently, it is through an ongoing process of mutual accommodation between the employee and the agents of the organization that the psychological contract continues to develop further. The employee's contract schema gradually takes a more "solid" form, eventually becoming very resistant to change. However, this process of mutual accommodation can take different forms. One possibility is the employee's adaptation to the reality unfolding in the workplace by adjusting his or her schema. However, it is also possible that, equity or instrumentality principles may play a role in shaping the employee's psychological contract schema. For example, Robinson et al. (1994) found that a sample of graduating MBA students reported increasing perceptions of their employer's obligations to them one year after graduation, yet these same employees reported decreases in their own obligations to the organization during that time.

Another process that may shape an employee's contract schema during the mutual accommodation period is reciprocity. Social exchange research indicates that the interplay of giving and receiving within the EOR causes parties to experience an increase in reciprocal obligations, and the enhancement of their trust in the other party, when that party lives up to or meets his or her obligations (Robinson et al., 1994). In support of the reciprocity process, Coyle-Shapiro and Kessler (2000) found that over time the organization's fulfillment of its promises was positively

related to employees' growing perceptions of their own obligations and to their contractual behavior. Further, employees' perceptions of their actual contributions to the organization over time led to perceptions that organizational promises had increased in number and level, while the level of inducements actually received from the organization had diminished. Thus, changes in the psychological contract schema are likely as employees become more knowledgeable about the terms of their employment relationship (Thomas & Anderson, 1998). Existing longitudinal research (De Vos, 2002) also shows that during the first year after entry, changes in promissory beliefs reflect a process of adaptation to reality and that reciprocity plays an important role in this adaptation process. De Vos concluded that psychological contracts are subject to change during the initial stages of the EOR, especially during the first months after entry.

Change Processes and Consequences Model

According to Rousseau (1995) schemas develop through discontinuous processing of information. A certain mental model of the EOR will endure until there is a clear signal of break or interruption. Profound modifications in the psychological contract may be caused by organizational actions (for example, imposed *new deals*; Schalk & Freese, 1997) or by individual changes (for example, the entering of a new phase in life with different needs and expectations). Thus organizations wishing to develop long-term relationships with their employees should consider not only individuals' expectations, perceptions, and values, but also potential changes in these characteristics over time. Individual changes will require that employers work to bring them into congruence with organizational expectations (Orpen, 1994).

Much has been written about the ongoing process of change in the EOR as a result of changes in the economic and social environments in which organizations operate (e.g. Roehling et al., 2000; Sparrow, 2000). Many authors suggest that a "new deal" and, consequently, a *new* psychological contract are emerging in employer-employee relationships (e.g. Anderson & Schalk, 1998; Herriott & Pemberton, 1995; Hiltrop, 1995; Schalk & Freese, 1997; Sparrow, 1996). The *core issue* of the *old* psychological contract, that is the offer of job security and continuity in exchange for loyalty, has disappeared, leaving a more transactional relationship that emphasizes flexibility and employability in its place (Anderson & Schalk, 1998; Roehling et al., 2000; Sparrow, 2000). These changes in the content of the terms of the psychological contract have resulted in a *new deal* where organizations emphasize the development of the broad skills of their employees and employees display a greater willingness to be flexible, in skills, job assignments, and sometimes even in

work locations (Sparrow, 2000). Under the new deal, organizational leaders expect employees to focus less on job security provided by the organization, and more on job security based on their value in the labor market (Gaspersz & Ott, 1996). Thus, employees must take the initiative by continually seeking out further opportunities to develop their competencies and skills, in order to increase their *market value*.

Empirical studies testing the emergence of a *new* psychological contract or a *new style* employment relationship have produced mixed results (e.g. Huiskamp & Schalk, 2002). Many employer and employee obligations have proven to be timeless, present in both the *old* and *new* contracts. However, by viewing the psychological contract as a schema, researchers are able to better understand the effects of different situations. For example, what will happen to the deal if employers do not fulfill their obligations to employees or if they unilaterally alter contract terms in the context of an organizational transformation effort?

Under such circumstances, employees' cognitive models of the contract serve as a frame of reference from which it is easy to predict likely outcomes. People will try to match the ongoing events they experience with their existing schemata. In case of minor deviations, individuals are likely to seek corrective actions for the discrepancy rather than to alter their schemata of their contracts. In novel situations or situations which drastically deviate from their contract schemata, people are more likely to take corrective actions that result in a change of their contract schemata.

Revision of the psychological contract schema becomes necessary when the mutual obligations change fundamentally over time. The psychological contract as a mental schema has boundaries that determine what is acceptable and what is absolutely intolerable to employees with respect to reciprocal obligations. The development of the exchange relationship between employer and employee, considering the employee's perceptual biases regarding that development, may create significant changes in the employee's view of the contract. Thus, organizations should consider employees' cognitive boundaries of what is acceptable and tolerable in the area of reciprocal obligations when planning for changes and their consequences.

What kind of changes in contract terms are likely to be considered as intolerable by employees? This would depend on the basic values of the individual employee, regardless of the framework of the existing contract (Schalk & Freese, 1997). For example, employees of health care organizations who were asked what would be intolerable for them in their employment relationship gave answers like "If my health was affected," "If I were no longer able to build a relationship with clients or to provide quality care," "If my job was not challenging or fun anymore," "If the organization got too negative," "If I was not treated as a person anymore," "If I was confronted with sexual harassment." Specific contracts include a zone of

acceptable variation. Changes falling outside of this zone are likely to be viewed as intolerable violating an employee's basic values. The zone of acceptable variation or the zone of acceptance is likely to be broad when the EOR is based on trust and good faith. For example, when employees perceive their managers as credible, their zone of acceptance to change is broader than when they assign low credibility to their managers.

There are two typical patterns of change in psychological contracts that influence employee attitudes and behavior. The obligations of the contract can be exceeded or they can be breached. These changes can be due to organizational or individual actions, unexpected events, or because of a gradual "contract drift" over time (Rousseau, 1995, p. 143). When gaps between perceived obligations and met obligations result, one would expect an employee to first show a temporary decline or increase in attitudes and subsequent behaviors (Kotter, 1973; Robinson & Morrison, 1995; Robinson et al., 1994; Rousseau, 1995; Sparrow, 1996), and then to reconsider the current contract. The employee would then likely undertake clarification and re-negotiation of the contract in the form of a *revision* (Schalk & Freese, 1997) or *transformation* (Rousseau, 1995, p. 143).

A revision of the psychological contract can take different forms. Negative revisions, whereby contract terms become noticeably less favorable to the employee, may cause a decrease in the individual's felt obligations towards the organization and/or the job itself. Decreases in felt obligations towards the organization, however, is a more common result than decreases in felt obligations toward the job itself. Strong and negative (from the employee's perspective) changes in contract terms are likely to cause the contract to break down. Accordingly, one may expect strong negative reactions from employees such as negative workplace attitudes and extreme behavioral responses: open conflicts, emotional expressions, and signs of aggression and depression. Employee reports suggest that they tend initially to focus on the work itself in such situations, frequently focusing on contacts with clients or putting more effort in their work. However, quitting the job or negative but passive work-related behavior, e.g. apathy, boredom, etc. is likely to follow (Rousseau, 1990).

Conversely, positive contract revisions may occur. This is the case where the terms of the contract become noticeably more favorable to the individual employee as frequently occurs when individuals enter new jobs or positions. The effect of positive revisions generally has not been studied but it is expected that positive revisions would improve existing attitudes and behaviors.

The Role of Justice in the Employee-Organization Relationship

Organizational justice plays several roles within the EOR, depending on whether one views it from the perspective of the psychological contract (employee) or the

employment relationship (organization) literature. In the case of the psychological contract, Rousseau (1995) posits that third parties to the EOR (i.e. parties who are neither the employee nor the organization) will tend to view the psychological contract (termed implicit contract) differently than will the two parties most directly involved. This is because they will tend to rely on different information, including a greater dependency on the tenets of procedural justice (e.g. the participation of both parties in the decision making process, the use of impartial decision makers, and advanced warning if changes are to be made in the process), when deciding on the basis of the obligations underlying the psychological contract between employee and organization if a violation has occurred. In addition, both Rousseau (1995) and Morrison and Robinson (1997) propose that employee perceptions of contract violation are tempered by their perception of the interactional justice, and more specifically informational justice, surrounding a discrepancy between what the organization is obligated to provide to the employee and what it ultimately delivers. The conceptual arguments of both researchers suggest that negative (those favoring the organization) discrepancies will not tend to be viewed as violations by employees in cases where the organization provides a good explanation for the cause of the discrepancy (e.g. the dire financial condition of the organization) and in cases where the discrepancy is implemented according to the tenets of procedural justice (e.g. with participation and advance notice). Similarly, Rousseau and McLean Parks (1993) proposed that organizational justice, in this case distributive justice, may come into play *after* a violation has occurred, such that the organization that provides a fair remediation to its employees for the violation may serve to restore trust and a relational contract and prevent or lessen negative attitudinal and behavioral reactions on the part of the employee. Thus, according to psychological contract theory, all four forms of organizational justice (i.e. distributive, informational, interpersonal and procedural justice), play important roles not only in shaping third parties' views and decisions about the nature of the psychological contract between employee and organization but also in preventing employees from viewing all discrepancies between the organization's obligations and provisions as violations and in helping to "right" a relational contract between the two parties once the organization has violated the contract.

Still other research views organizational justice as a central part of the social exchange relationship between employee and organization, the exchange that underlies the very essence of the EOR. For example, Masterson et al. (2000) reported strong evidence of linkages between employee perceptions of procedural justice and their reports of the favorability of their exchange with the organization. Cropanzano, Rupp, Mohler and Schminke (2001) argue that employees repay fair treatment by forming strong social exchange relationships with the employer and cite evidence of justice effects being mediated by both indices of the quality of

the EOR, such as POS, as well as direct measures of the psychological contract. Finally, in a recent chapter on the EOR, Folger (2004) argues that conformance to two types of moral mandates, promise keeping and the human covenant, defined as socially shared understandings about the moral considerations seen as applicable for governing interpersonal interactions and social conduct in general, establish boundaries of acceptable behavior among human beings. These moral mandates are essential to the organization's part of the exchange, given the employee's willingness to accept uncertainties about the nature of task assignments and inducements as well as the autocratic control of the organization over job assignments, the precise nature of benefits or inducements, and in general, the policies and procedures governing the EOR. He cites numerous studies showing the negative effects resulting when organizations disregard these mandates and subject employees to low levels of procedural and interpersonal justice. He thus argues for a somewhat different role of organizational justice in the EOR than has been proposed before. In Folger's view, the formation of an EOR places moral mandates on the employer, to treat its employees in a manner reflective of high procedural and interpersonal justice.

In summary, we have argued that organizational justice plays a distinct and generally empirically supported role in the EOR with respect to both the psychological contract and employment relationship literatures. These roles have implications, not only for the overall quality of the relationship that develops but also for its ability to withstand conflicts between parties, mistrust and even major violations, while remaining strong and favorable.

Using a "Relationship" Metaphor Instead of a "Contract" Metaphor

The literature on the employment relationship and more specifically the psychological contract has historically used models of organizational contracting. McLean Parks and Smith (1998) suggested that based on this, several broad generalizations could be drawn. First, few models of organizational contracting address the variety of resources that can be exchanged and how the resources exchanged may affect the nature of the contract. Secondly, most models of organizational contracting implicitly rely on the assumption of self-interest. Thirdly, most models of organizational contracting implicitly rely on notions of balanced reciprocity. In this section, we examine the possibility of using a relationship metaphor, instead of a contract one as a basis for the EOR by drawing on social exchange. Also, in this section we posit the need to consider a more positive functional relationship in addition to the past focus on failures of organizations and employees to meet their obligations.

Social Exchange

Foa and Foa (1976) in their conceptualization of social exchange theory suggested that there were six types of exchange resources that could be described based on two dimensions. The categories of resources were love, status, information, money, goods, and services with these dimensions reflecting two underlying dimensions of universalistic vs. particularistic and concreteness vs. symbolic. Foa and Foa suggested that exchanges would typically be made with like resources or at least similar resources as arranged on the two underlying dimensions. Thus, resources connoting "love" would not be exchanged for monetary resources, for example. Unfortunately, there have been few tests of Foa and Foa's theory in the workplace; indeed we could only find one such application, that being Berg and Wiebe (1993). Therefore, the question remains open as to whether Foa and Foa's resource exchange theory generalizes to the EOR.

Foa and Foa's theoretical framework draws on the norm of reciprocity although it does not explicitly incorporate the three dimensions of reciprocity posited by Sahlins (1972). According to the norm of reciprocity within social exchange theory (Gouldner, 1960; Sparrowe & Liden, 1997), there are three components that affect reciprocity. First, the goods or services exchanged need to be of equivalent value. This is the most direct link with Foa and Foa's resource exchange theory. Secondly, there is some consideration as to how quickly the receipt of a good or service must be reciprocated. The immediacy of exchange can be linked with the psychological contract model in that it has been posited that short-term relationships such as might be found among some part-time and temporary workers have more transactional contracts and expect repayment within the short-term (Rousseau, 1995). However, research has not always supported the proposed differences in psychological contracts among full-time and part-time workers (Coyle-Shapiro & Kessler, in press; Craig & Tetrick, 1999). Lastly, the likelihood of reciprocation is also dependent on the mutual interest between the parties to the exchange.

The first component suggests a need to identify specific obligations, as it would be expected that individuals reciprocate with acts or resources that are of equivalent value. However, this raises the question as to what is meant by equivalent value. From whose perspective is value determined? Turnley and Feldman (1999) suggested that not all obligations within individuals' psychological contracts are equally important and thus by extension they would not have equal value. If value varies by individual, then is it possible to establish *a priori* resources or obligations of equivalent value? This would suggest that it is possible to establish value independently. This might be possible with certain obligations or goods and services but would be more difficult with other resources. Further, some would argue that in the

EOR it might not be possible for employer obligations and employee obligations to have equivalent value. This links back, in part, to the power asymmetry.

The second and third components of the norm of reciprocity essentially reflect something about the relationship among the parties. For example, the immediacy with which one expects someone to reciprocate reflects, at least in part, the degree of trust between the parties. The greater the trust between two parties the less there will be a need for immediate repayment of an obligation, but the less the trust the greater the need for immediate repayment. There also appears to be ambiguity with respect to some specific obligations as to whether they can actually be met. To the extent that both parties are concerned with the interest of the other party then the stronger the influence of the norm of reciprocity. It is hypothesized that such a situation may also reflect mutual trust and therefore the increased likelihood that the parties will reciprocate although not necessarily immediately.

While focusing on specific obligations may have value, especially for developing interventions in organizations, the complexity of defining the EOR based on specific obligations may outweigh the advantages. It may be that a more parsimonious and generalizable approach to understanding the employment relationship would be to try to capture the exchange relationship directly (Shore, Tetrick & Barksdale, 1999). Social exchange theory and much of the literature on psychological contracts supports at least two dimensions of the exchange relationship: economic exchange (or transactional) and social (or relational) exchange. The question remains as to whether these two dimensions adequately reflect the dimensions of an EOR and whether these two dimensions are actually the ends of a single continuum or instead two distinct dimensions of the employment exchange relationship.

Lastly, the literature has tended to look at reciprocity and balance in mutual obligations at one point in time (Shore & Barksdale, 1998; Tsui et al., 1997). It may be what is perceived as unbalanced at a particular point in time may actually be balanced when a longer time frame is used. We do know from cognitive psychology that people probably don't keep a tally of every exchange. Rather, they form global perceptions that can be relatively stable. Therefore, psychological contracts may not be as malleable as some have assumed. Similarly, from an organizational perspective, strategies do not fluctuate widely and frequently; therefore, the investments in certain job incumbents would not be expected to change rapidly nor would the expectations of the organization for the contributions from those individuals in whom they have invested. It is interesting to note that the bulk of the literature has focused on organizational failure to fulfill their obligations rather than on the failure of employees to fulfill their obligations although one might say that is the focus of much of the literature on job performance, attendance, and even (anti-) citizenship behavior. It seems that taking a positive

perspective on the outcomes of fulfilling obligations may expand our understanding of the EOR.

Positive Functional Relationship

Much of the empirical research on psychological contracts has focused on breach or violation. There is perhaps an underlying assumption that if the mutual obligations are fulfilled all is well. This may be similar to the ongoing debate on how to define health. Is health simply the absence of illness or is it something more?

It may be that by formulating the employment exchange relationship using the contract metaphor we have inherently set the stage to focus on the negative. The purpose of a contract is to provide a mechanism for enforcing mutual obligations thus preventing loss through either inadvertent lack of agreement or arbitrary and capricious behavior on the part of one party to the agreement. Certainly one can argue that the attention to failures to fulfill obligations serves to protect and promote the survival of the relationship. However, the question arises whether one can develop a positive functional EOR much in the same framework as discussed within positive psychology (Seligman & Csikszentmihalyi, 2000) or positive organizational behavior (Luthans, 2002).

Based on his criteria, Luthans (2002) proposed that self-efficacy, hope, optimism, happiness or subjective well-being, and emotional intelligence are positive organizational behaviors, which are similar to concepts that researchers have suggested to be indicative of positive individual health reflecting optimal human functioning. Some of the indicators of positive individual health that have been proposed are hope, wisdom, creativity, mastery, and interpersonal flourishing (see Tetrick, 2003, for a review). Therefore, by extension, positive functional employment relationships should promote these six positive organizational behaviors. However, this only addresses one side of the exchange relationship. To complete the equation, it is necessary to consider positive organizational health. Among the generally agreed upon indicators of positive organizational health are adaptability, flexibility, communication adequacy, optimal power/equalization, resource utilization, cohesiveness, innovativeness, and meeting goals (see Bennett, Cook & Pelletier, 2003; Hofmann & Tetrick, 2003; Newell, 1995 for reviews). Therefore, it is suggested that a positive functional EOR would create both positive individual health and positive organizational health.

Research is clearly needed to determine how to promote employment exchange relationships that reflect positive functional behaviors on the part of both individual employees and organizations. It is hypothesized that a positive functional EOR would have the following elements:

- Employees are viewed as social capital investments.
- There is consistent implementation of the employment relationship throughout the organization.
- There is a clear meta-contract (i.e. rules about the rules of the contract).
- The contract must be both flexible (i.e. able to change with the market, technology, etc.) and consistent in terms of promises, expectations, and obligations.

Therefore, a positive functional EOR values employees and recognizes the context in which the EOR exists. Additional elements of a positive functional EOR need to be considered as future research develops these ideas further.

Integrative Negotiations Model

The positive functional EOR has several characteristics in common with another conceptual approach that may prove useful in integrating the perspectives of the employee and organization within the context of their relationship. Earlier in this article, we noted that both psychological contract and employment relationship concepts and research generally acknowledge the greater power of the organization within the context of the EOR. There are a number of reasons for the organization's greater power in this context but certainly among them are a larger financial resource base with which to weather economic downturns, less dependency on a single source for livelihood – i.e. a multi-employee workforce vs. a single primary organizational employer, a larger and more complex social network from which to recruit a replacement relationship, and greater control of the mechanisms, i.e. job design, compensation parameters, training and development opportunities, and so forth, used in managing the EOR. Organizations' greater power in the EOR allows for the possibility that agents of the organization may ignore or provide little satisfaction for employees' interests, needs or welfare in general. In fact, Capelli (1999) argues that this has been the case over the last two decades as slack labor markets caused by major organizational restructuring allowed organizations to push most of the costs of changes in the workplace off on employees. He acknowledges, however, that tightening labor markets leave open the question of whether any particular organizational employer will retain its power and predicts that many will not, ultimately proving unable to identify new ways of retaining employee commitment, recruit critical knowledge and skills needed for market success and retain their best talent in the face of an increasingly transactional labor market.

We conclude then that one important issue in the future of the EOR is the identification of mechanisms that are suitable for forming and maintaining a new kind of relationship, one which both parties generally concede will be increasingly

open-ended (i.e. of indeterminate length, rather than permanent). Toward this end, we suggest the utility of win/win, collaborative or integrative negotiation that yields what Thompson (2001) refers to as level 2 or level 3 agreements in her pyramid model of integrative agreements.

Integrative negotiation differ from distributive or win/lose negotiation in both its assumptions and process. Integrative negotiation assumes that parties' (such as the employee and the organization) interests are not mutually exclusive and that the goals of both can be satisfactorily achieved through a process ensuring that all creative opportunities are exploited and no resources are left unused or "on the table." Each party is committed then, not only to satisfying his or her own interests or goals but also to satisfying those of the other party. Similarly, the process underlying integrative negotiation differs considerably from that of distributive bargaining. Integrative negotiation involves: (1) the *open exchange of information* between parties to learn one another's interests, goals and constraints; (2) sincere attempts to *understand* the other party's *real* underlying needs and objectives; (3) an *emphasis on commonalities* between parties and the *minimization of differences* in values, styles, goals, etc.; and (4) *searching hard* for solutions that *satisfy* the interests and goals of *both* parties. Perhaps not surprising, strategies that have proven to be helpful in reaching integrative agreements include the building of trust and promotion of information sharing, asking of diagnostic questions to get at underlying interests and needs, unbundling of issues to create more opportunities for satisfying parties' interests, proposing package deals rather than single issue offers to stimulating the comparison and trade-off of issues, and the extending of multiple offers simultaneously, with some of these offers designed to capitalize on differences in parties' expectations of the future, and risk and time preferences – again to capitalize on differences in preferences (Lewicki, Barry, Saunders & Minton, 2003; Thompson, 2001).

Level 2 or level 3 integrative agreements are those that go further than the level 1 point of *exceeding each parties' reservation point or their best alternative* to that particular agreement, or in this case the EOR. Level 2 agreements are better for both parties *than other feasible agreements*, meaning that parties find a solution that they both prefer and would have considerable difficulty in exceeding. Finally, Level 3 agreements are those that are *impossible to improve for both* parties, at least not without simultaneously worsening the outcome of the other party. Thus, the use of integrative negotiation to reach a level 2 or 3 agreement between the employee and organization is an effort that requires commitment to satisfying both parties' interests/goals, and strives for a relationship that exceeds other feasible agreements from the parties' joint perspective. This is clearly a high standard for the process and the resulting relationship. Thus, one might ask whether the EOR is an appropriate forum for the use of integrative negotiation.

Consideration of the characteristics that signal the potential for win/win negotiation confirms the usefulness of the integrative model for creating value in the context of the EOR. These characteristics are: (1) the negotiation includes more than one issue, e.g. wages, benefits, training, job learning and challenge, employee performance and innovation, commitment, loyalty, etc; (2) there are other issues that might be brought into the negotiation, e.g. work hours and location, deferred income, workplace governance, etc.; (3) the possibility of side deals exists (e.g. organizations or individuals also interested in a particular employment relationship, offering another a premium for freeing an employee from a prior work commitment; permitting another individual to participate in a work project as an outside consultant); and (4) parties have different strengths of preference across most of the issues of negotiation, meaning that the organization and employee may differ in their preferences for certain salary structures, benefits, work hours, performance quality, work assignment preferences, allowing for the possibility of crafting a deal that satisfies both (Thompson, 2001). Thus, integrative negotiation seems to offer the potential for achieving a level 2 or 3 integrative EOR.

A more important question, however, might be why a more powerful organization, caught up in the pressures brought by a market economy, would choose to embrace integrative, rather than distributive negotiation, in forming its relationship with generally less powerful employees? This issue is particularly important given Pfeffer's (1981) doubts about the viability of multi-constituent systems of fairness in the face of individual biases that make it difficult to see one's self-serving nature, and the information and negotiation skill asymmetries that typically exist between stronger and weaker parties. Our answer here is a multi-faceted one. First, we suggest that integrative negotiation is more likely to be used in an organization's negotiations with their core employees, i.e. long-term employees that bring strategic value to the firm through their possession of highly unique and valuable knowledge and skills. We suspect that other, non-core employee groups will increasingly be externalized (Delery & Shaw, 2001; Kalleberg, 2001) and these externalized individuals' employment relationships, will then be with a third party vendor for whom their knowledge and skills may be strategic. Second, we do not expect that all organizations will choose to use the integrative negotiation model in forming EORs, even those for core employees. Rather, we suggest that organizations which are attuned to the long term benefits of employee creativity and commitment and understand that creativity and commitment may result from selective investments in human capital (Jackson, Schuler & Rivero, 1989) might increasingly use and reap the benefits of integrative negotiations in the context of the EOR. Thus we suggest integrative negotiation as another mechanism for theorizing about the EOR.

CONCLUSIONS

If one looks at the total mosaic of research carried out to date on the Employee-Organization Relationship (EOR), as described in this article, it seems clear that many different facets of the topic have been explored. A somewhat coherent body of knowledge and understanding is gradually being developed. In this article, we've argued for the need to consider ways to integrate the psychological contract and employment relationship literatures, and have provided a number of suggested mechanisms for ways to do so. We have also argued for the importance of context in both theory development and empirical evaluation of EOR models. Anyone doing research on this area is definitely not starting from scratch. An issue, therefore, is that given what has already been learned, where are the most important research gaps that need additional examination and exploration. It is unlikely, however, that there is – or even should be – any single, definitive answer to this question. Thus, below, we first describe what we believe has been learned so far in the EOR literature, and then conclude with future research directions.

What We Have Learned So Far

Whether one examines the psychological contract or the employment relationship literature, significant changes in economic competitiveness, organizational structure, and the frequency of non-standard work have led to accompanying revisions in the nature, level and duration of the EOR over the last 20 years. While it can be argued that these changes have been dramatic only for a relatively small portion of the working population, as many employees never experienced the stereotypical life-long loyal and relational employment relationship with an organization, it is more likely that a large percentage of employees experienced at least a part of this idealized relationship. At the very least, the expectation of long-term employment security and relational contracts, or at least the hope of such a possibility given a good education, hard work and loyalty, remains an ideal for many workers. The empirical evidence suggests that even though formal work arrangements are changing, both employees and employers are seeking ways to develop and maintain strong social exchange relationships with inherent benefits, even in the face of extensive environmental challenges.

Considerable empirical research now supports the importance of agreement on or balance in the contributions of each party to the EOR for positive attitudinal and behavioral outcomes at the individual and job levels of analyses. Note however that this research has generally been conducted from the perspective of one party, not both, to the relationship. There is also evidence that the type of EOR that

is strongly linked to organizational level performance may be moderated by the organization's goals and competitive strategy. Thus, it is becoming increasingly clear that even though social exchange relationships appear consistently beneficial at the individual-level of analysis, when important obligations are fulfilled by both parties, the same principle may not always apply at more macro levels of analysis. Further testing and development of group, organization, and cross-level models will help to further enlarge the EOR domain so that similarities and differences across levels become clearer. At this point in time, relatively little research has examined the effects of a balanced or congruent EOR from an integrated perspective, reflecting the views of each party. However, the three to four existing studies that have examined both perspectives indicates that we may learn more about the outcomes of the EOR from studying them from a joint or integrative perspective.

Thus, the question becomes how to best integrate the individual employee and organization perspective in future theorizing and empirical research. Our research for this article indicates that there may be much to be gained from further considering the relationship as the basis of the exchange, rather than a psychological contract per se. Likewise, exploring interactive methodologies that consider the interests of both parties in the relationship, such as win/win or integrative negotiations, as long as such conceptualizations are able to explain the dynamic nature of the relationship, over time and the impact of context on the relationship. Finally, building on the ideas presented in this article, we have highlighted the importance of seeking to develop models of the EOR that delineate healthy and productive modes of organizing work relationships. While breach and violation remain important and meaningful areas of study, models of healthy employment relationships are the positive and yet understudied analogue.

Needed Research – Where do We Go from Here?

This article was written by many different scholars in the EOR field. It began as an idea at the annual Academy of Management meeting, where Lois Tetrick, Susan Taylor, Lynn Shore and Jackie Coyle-Shapiro decided (how simple it seemed then!) to help move the EOR literature forward through a series of forums. This initial goal then really took shape at a 2½ day workshop in Houston in 2002 in which many of the authors of this article were in attendance. Subsequently, a session titled "Research Workshop Networks: A Methodology for Developing the Employee Organization Relationship" (National Academy of Management Meeting in Denver in 2002), an edited volume of the *Journal of Organizational Behavior* (August, 2003), an edited book (Oxford University Press, 2004), and

finally this article became the products of much discussion and meetings of the minds.

Those of our readers who have systematically read the entire article undoubtedly recognize the many research ideas embedded within each section. The purpose of this final section is to bring forth additional ideas, and to further develop some of the research ideas already mentioned in brief in prior sections of this article.

Integration of Employer and Employee Perspectives

One of the most important suggestions for future research that this article has raised is the need to integrate the employee and the employer perspectives. We have discussed a number of conceptual and methodological issues that will need to be resolved for such integration. These issues include the idea of using "relationship" rather than "contract" as a metaphor, focusing on the interaction rather than perceptions of obligations, and encouraging a dynamic view so that changes in the psychological contract or employment relationship can be tracked over time. Most importantly, the discussion directs us to greater emphasis on the "context" in understanding the nature and changes in the relationship between the employee and the employer.

One implication of the "relationship" metaphor is that we would analyze the phenomenon at the dyadic level. One advantage of a dyadic focus is that it would make the phenomenon more tractable. The "relationship" is not between the employee and an abstract entity called the organization but between the employee and agents of the organization. These agents could include the immediate supervisor, one or more co-workers, higher-level managers, the HR manager or representative, and even the executive leader. Future research could investigate the role of different agents in influencing the employment relationship representing the employer's perspective and the psychological contract perceived by the employee. Further, employees do not negotiate with the "organization." They negotiate with "agents" of the organization. Negotiation research on the EOR could analyze the effects of different agents on negotiation outcomes. In the context of multiple agents, it would be interesting to identify agent characteristics that would likely yield win-win negotiation outcomes between two parties with inherently different power and interest.

Agreement in Dyads

The dyadic view raises questions about the extent to which the agreement workers perceive to be in place in their EOR is indeed an agreement in fact. The extent to which workers and employers hold similar beliefs regarding the psychological

contract and the employment exchange generally is critical to the functioning of employment relations. Two key dyadic qualities of the EOR are mutuality and reciprocity. Mutuality refers to the extent of agreement regarding the nature of the relationship and its specific terms. Reciprocity is what the parties believe they owe each other in exchange for contributions the other has made. Agreement, defined by shared perceptions on the parties to employment, in psychological contract theory is fundamental to positive outcomes for both parties. (Note, that we are using agreement here to capture what previous psychological contract researchers labeled as "mutuality." These earlier uses of the term did not differentiate between agreement on same obligations or reciprocal obligations.)

The first issue from a dyadic view is to what extent agreement, operationalized as either mutuality or reciprocity, exists. Though their design did not match individual workers with employers, Coyle-Shapiro and Kessler (2002) have examined the extent of agreement among managers and groups of workers they employ, finding varying levels of mutuality. Dabos and Rousseau (2004) also found variation in degrees of agreement between employer and worker. A central question regarding the presence of agreement is the factors that drive convergence in worker and employer perspectives. Psychological contract theory suggests that agreement is likely to arise where there are shared social cues, common experiences between the parties, and consistency in human resource practices. At the very least, we cannot assume that agreement exists and subsequent researchers are advised to take levels of agreement into account in studying the exchange relationship.

The second issue is the impact of agreement on processes and outcomes in the EOR. In a dyadic study where employers provided commitments they had made to each worker individually, Dabos and Rousseau looked at two forms of agreement. Mutuality was operationalized as the extent to which worker and employer agreed on the obligations the employer had to the worker. Reciprocity was operationalized as the extent to which the parties agreed as to the obligations the other party owes them. In this instance, agreement would be assessed by comparing whether comparable types and levels of obligations existed in what the employer owed the worker and what the worker owed the employer in return. Both mutuality and reciprocity were positively related to beneficial outcomes for both worker and employer. In particular, productivity, retention, and future career opportunities were positively related to both mutuality and reciprocity. Mutuality regarding employer obligations appeared in this study to be higher than shared beliefs regarding reciprocal obligations. Dabos and Rousseau (2004) attributed this difference to the time lags involved in reciprocating the actions of another. If indeed reciprocal agreement is more difficult to achieve than mutuality, research is needed into the impact of time lags and in interactions between employee and employer over time on successfully accomplishing reciprocity.

Reciprocity is potentially more dynamic than mutuality, that is, reciprocity is subject to change over cycles of contribution and rewards, inducements and follow-through. Some kinds of commitments also may require more time to fulfill, as is likely the case with development opportunities and career advancement, as opposed to material support or benefits. Thus in understanding the dynamics of the employment exchange we need greater attention to the types of resources involved.

Another important issue underlying the extent of agreement in the EOR is the power balance issue underlying the worker and employer. To the extent that one party is less able to shape the nature of the exchange than is the other, the EOR may involve more agreement *to* as opposed to agreement *with*, undercutting the level of mutuality and reciprocity upon which the exchange is based.

Social Networks

The dyadic approach has another conceptual advantage. It can be expanded to a network analysis. A network is comprised of multiple inter-related and embedded dyadic relationships. The network concept may apply to the "relationships" dimension of the social context depicted in Fig. 1. However, the network is more than "relationships" in the social context. It is the structure of the relationships for an employee. The network structure would influence the employee's perception of his or her psychological contract in relation to other's psychological contracts. For example, the psychological contracts of employees in a cohesive or dense network are likely to be different from that of employees in a sparse network. In a cohesive network involving the supervisor as an agent for the organization and multiple employees, we may expect more similarity in psychological contracts among the employees performing the same job. In a sparse network involving employees who have no knowledge of or at most infrequent interaction with each other, we would expect more divergence in both the psychological contract and the actual employment relationship. In other words, a network with multiple agents of the organizations may produce EORs quite different from those in networks where one single agent dominates. The implications of multiple agents vs. a single agent for psychological contracts would be a fruitful area for further conceptual and empirical work.

The location of the employee in the structure also may influence the employee's power to negotiate with the organizational agent about expectations and obligations. For example, a more central employee certainly would be in a stronger position to negotiate than another employee in a peripheral location. The employee in a "bridge" location may have more information about the psychological contracts of other employees in the same job or similar jobs, giving the bridge employee either an advantage in negotiation or a wider basis for judging fairness by the employer. In fact, research indicates that workers with informally powerful positions have

more munificent psychological contracts than their less powerful counterparts (Dabos & Rousseau, 2004; Ho, Levesque & Rousseau, under review). By integrating the psychological and sociological perspectives, the network approach is a powerful analytical tool for capturing the effect of the network as a "context" on the nature of psychological contracts and employment relationships for different employees.

Comparison of Workers Within Units

The comparative view addresses the question of what it means when workers in the same work unit hold different perspectives regarding their employment relationship. Researchers who have examined the psychological contracts of workers in the same work unit have found little evidence of within-unit agreement (Dabos & Rousseau, 2004; Rousseau & Tijoriwala, 1999). Since the psychological contract reflects an individual's system of beliefs regarding an exchange relationship with another, the lack of within unit agreement is not a challenge to the integrity of the psychological contract. But do workers in the same setting have different psychological contracts? If so, it raises the issue of how workers in the same unit can come to hold such distinct perspectives regarding what they owe their employer and what they believe the employer owes them. The practical implications of managing a work unit wherein members hold widely different beliefs suggest that within-work unit heterogeneity in psychological contracts can be dysfunctional from the firm's perspective. Moreover, disagreement among co-workers can impact perceptions of the organization's practices, including the fairness of treatment they receive. Basic questions the comparative view raises include: To what extent do people in the same organization have different psychological contracts? What is the functional effect of this disagreement for the firm and for individual workers? Greater use of analyses of within-group heterogeneity is needed to explore the dynamics of differences within units in the EOR. Such approaches can help answer the question of how the psychological contract of a co-worker impacts a worker's experiences on the job.

The relative powers of the parties involved in the EOR shapes not only the terms of their agreement (and whether this is agreement with or agreement to), but also the extent of commitment less powerful parties express regarding the terms of their agreement. Social standing shapes one's beliefs regarding obligations, particularly obligations on the part of the employer. Whether this is a result of differences in contribution high status members make, recognition given to higher performers or more valued workers, or the effects of auspicious social position itself is unclear. Research is needed not only into the social processes that affect the psychological contract but also the extent to which social status itself can shape the resources that flow to employees and in turn the obligations they come to believe they are party to.

Dynamism of the EOR

One of the critical dimensions of the overall EOR domain that seems relatively underexplored, as briefly discussed earlier in the article, is the dynamic nature of the relationship through time. By its very nature, the relationship of employees to their organizations is not fixed and static. We need to know more about the evolving stages of such relationships and, especially, the endogenous and exogenous causes of those changes. The former would include causes directly related to either or both of the two parties to the exchange. For example, what is the magnitude of the effects of changes in top management, which often are accompanied by changes in organizational objectives, on the relationship, when do those effects occur (if they do) and how long do they last? Are these effects on the relationship greater or lesser than changes in an employee's immediate supervisor, and, particularly, what are the reasons why they are or are not greater? Exogenous causes would be those outside of the two parties themselves, such as changes in economic conditions or societal trends. Beyond identifying internal and external causes of changes in the relationship, it is also important to study the interactions of those causal factors in producing various kinds of effects. This implies more emphasis is needed in future research on attempts to capture multiple factors simultaneously impacting EOR changes.

The Role of Culture

In an earlier section, we have pointed out differences in employment laws and employment practices in some European countries. However, we know much less about the meaning of psychological contracts or the nature of employment relationships in contexts beyond the Anglo-Saxon culture (Rousseau & Schalk, 2000). We have reported an emerging interest in the employment relationship of firms with middle managers in the People's Republic of China (Tsui et al., 2002, 2003). The obligations of the employer (in the form of inducements) and of the employees (in the form of contributions) expressed by the Chinese middle manager sample were quite similar to those reported by U.S. samples. We suspect that the basis for the similarity may be contextual. Chinese managers are taking MBA-like courses in large numbers and many Chinese firms are imitating the practices of foreign invested firms (many are from the Anglo-Saxon countries). These developments suggest that institutional theory (Scott, 1995) may be a relevant theoretical lens for cross-cultural or cross-national comparative studies of employment relationships and psychological contracts.

There are a number of exciting questions that could or should be explored in future cross-cultural studies. Does the employment relationship or psychological contract carry the same meaning in different cultures? What do employers perceive to be employee obligations to the firm in different cultures? What do the employees perceive to be employer obligations in these cultures? What might be some universal and culture-specific obligations from both sides? Are there cultural differences in worker reactions to the breach of psychological contracts? Even though the norm of reciprocity is universal (Gouldner, 1960), there might be differences in the form with which reciprocity occurs. For example, the ideas of resource equivalence, mutual interests, and immediacy of exchange (Sparrowe & Liden, 1997) may vary across cultures. Some cultures may value equivalence and immediacy while other cultures may scorn both equivalence and immediacy. How do these cultural norms in reciprocity influence the nature of the employment relationship and perceptions of psychological contracts? Answers to the above questions would contribute to basic knowledge and have important practical implications for managers of multinational firms.

What is Exchanged?

To varying degrees, the different perspectives reviewed in this article address the "currency" of exchange, with perhaps the most recent development given by Edwards and Bunderson (in press), in their development of ideological currency as a complement to the economic and social currencies explored in the research thus far. McLean Parks and her colleagues (McLean Parks & Smith, 1998; McLean Parks et al., 1998) built on Foa and Foa (1976) to focus on the type of resource exchanged, many of which could be sub-classified as being characteristically economic, social, or ideological. With few exceptions, relatively little research has focused on the "what" of the exchange relationship beyond these broad categorizations in any great detail, in particular, the metric (or metrics) that go in to evaluating whether or not one has received their due when exchanges cannot be completed "in kind." However, this comparison – this *commensurability* (McLean Parks, 1997) – has potentially important implications for perceived fairness/justice in the exchange, perceived compliance, breach or violation, as well as reactions to compliance (Organ, 1988) or beneficence (McLean Parks, 1997) such as organizational citizenship behaviors (Organ, 1988), or to breach and violation such as retribution and revenge (McLean Parks, 1997).

With different forms of currency in use in an exchange relationship, the commensurability of the currency of exchange – or resources – becomes an important issue. For example, McLean Parks (1997) built on Pruitt's (1981) idea of three

general types of compensation, or in this case the "what" one receives for the resource one has given. Pruitt describes specific, homologous and substitute forms of compensation, forms of compensation that are differentiated by: (1) the need that is satisfied; and (2) the domain in which the need arises. A working parent might hire "Merry Maids"TM to clean the house, satisfying the need for cleanliness. In this case, the need satisfied (cleanliness) is identical to that lost by the parent's absence, and it occurs in the same domain (home), providing *specific* compensation or recompense (McLean Parks, 1997), becoming an exchange of like for (nearly) like within the same domain. *Homologous* compensation or recompense is an exchange of like kind (my Longfellow for your Thesaurus; Pruitt, 1981), where the domain is quite similar (books) but the need that each satisfies is quite different (Pruitt, 1981). *Substitute* compensation or recompense is exchanged in different domains and satisfies different needs, for example, the practice of purchasing indulgences from the Church for transgressions committed against others. Only in the case of "like for like" exchanged in the same domain is compensation *isomorphic* (Sparrowe, Dirks, Bunderson & McLean Parks, 2003) in the exchange between the parties (see Fig. 2).

Outside the domain of isomorphic compensation, these different forms of compensation or recompense suggest that the equivalence of the exchange may be judged quite differently depending on which form is used in the exchange, with a more straightforward matching of specific or homologous compensation than for substitute compensation (McLean Parks, 1997). The implications for the "what" of the exchange – and commensurability – have not been explored in standard models of exchange relationships.

Referring back to the three types of currencies – economic, social and ideological (Edwards & Bunderson, in press), one begins to see the complexity of determining commensurability, not only in terms of the needs satisfied, but also the domain in which they occur. Economic currencies easily satisfy the same needs and may be

Need fulfilled is:	Domain is:
Same	Same <i>Isomorphic compensation</i> economic, social & ideological currencies
Different	<i>Homologous compensation</i> social currencies
	<i>Substitute compensation</i> economic currencies

Fig. 2. Form of Compensation and Currencies of Exchange.

more transportable across domains (e.g. an exchange when traveling of Euros for dollars). Social currencies may not be transportable across domains (a protégé in the working domain vs. one's child in the family domain), but may satisfy the same need (affiliation, mentoring) in the two domains. Ideological currencies likely do not satisfy other needs nor do they transport easily across domains, making them particularly prone to violation.

How are the Parties "Cued" to the Exchange?

From the perspective of evolutionary psychology, Cosmides and Tooby (1989, 1992) suggest that natural selection has imbued individuals with the ability to recognize cues – in this case, to the nature of the exchange relationship – and match those cues to the appropriate script that provides expectations and information about possible contingencies and outcomes. These cues and their associated scripts then inform the individual in terms of how, or if, to reciprocate, how to enforce compliance (or conversely, to punish non-compliance) and possible response sequences. Yet if, as Cosmides and Tooby suggest, these scripts are domain specific, this would imply that exchanges with specific and substitute compensation are not scripted, and rather are emergent and evolving. Future research should endeavor to explain the cues or signals used in defining the nature of the exchange (and hence the script that will be used as a referent) as well as emergent exchange processes, in which there may be a constant state of disequilibrium.

Research Approaches

Research on the EOR has primarily focused on the “usual cast of characters” including such dependent variables as satisfaction, commitment, performance and citizenship. An extension of prior consequences to include dependent variables or outcomes relevant to the EOR such as the extent of participatory or shared decision making in the relationship, the level of trust between parties over time, outcomes taken from positive relational psychology, such as quality of work life, physical and mental health (of individual and organization), morality, retrospective assessments of the relationship after it has ended, goal achievement, performance levels, innovation, and value creation vs. destruction. These consequences should focus on the societal, as well as individual and organizational effects. This expansion of the research domain will clearly require development of EOR concepts at multiple levels of analysis, as well as explicating the linkages across levels. We believe such expansion is do-able, though obviously challenging.

A general characteristic of the overall body of research so far carried out on the EOR is that it has been by-and-large somewhat piecemeal. This has had the advantage of bringing a number of independent perspectives to studying the phenomenon and thus avoiding stifling orthodoxy in both issues being studied and in the methodologies employed. What may be useful to add to this mix in the future is to design and implement a large-scale, comprehensive, multi-investigator study of the phenomenon in a variety of organizations and even in a set of different countries. Here the example of the recent GLOBE study of leadership (House, Javidan & Dorfman, 2001), carried out in over 180 companies in more than 60 countries, but with common measuring instruments and systematic focus on key variables, could provide a model for an analogous investigation of the EOR. The implementation of such a data-gathering project might be one way to generate additional research leverage on an obviously complex subject.

Summary

Research has informed our understanding of the EOR from the employee's and from the organization's perspective. The challenge is to integrate these findings to understand the actual relationship jointly considering both the employee and the organization. To do so will require theory development, new measurement techniques, and application of new (at least to this literature) methods and analytical procedures. Nonetheless, we consider the endeavor to be particularly important at this point in time. The challenges for organizational leaders and members in the twenty-first century promise to continue, with global changes putting pressures on EORs that have vast implications for individuals, organizations, and nations.

"It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change."

Charles Darwin

ACKNOWLEDGMENTS

This article has been a team effort from beginning to end. We wish to acknowledge all of the authors for the generosity with which they contributed to the project, and for making this a truly comprehensive and thought-provoking article. Our deepest gratitude to Joe Martocchio and Jerry Ferris for giving us this opportunity, and for believing in our ability to carry it off!

The Employment Relationship Workshop, in which most of the authors participated in the spring of 2002, was the incubator for many of the ideas that appear in

this article. Support for the Workshop was provided by the W. T. Beebe Institute of Personnel and Employment Relations at Georgia State University; the Robert H. Smith School of Business and the Center for Human Capital, Innovation and Technology at the University of Maryland, College Park; the Department of Psychology and the C. T. Bauer School of Business at the University of Houston; and the London School of Economics and Political Science.

We are very grateful to our respective institutions for their support and to the Graduate School of Management at the University of California, Irvine, where Lynn Shore was a Visiting Professor during the writing of this article.

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