

New hire perceptions of their own and their employer's obligations: A study of psychological contracts

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Summary

Psychological contracts are individual beliefs in reciprocal obligations between employees and employers. In a sample of 224 graduating MBA students who had recently accepted job offers, beliefs regarding employment obligations were investigated. Two types of obligation were demonstrated empirically: transactional obligations of high pay and career advancement in exchange for hard work and relational obligations exchanging job security for loyalty and a minimum length of stay. These types of obligations are connected with two forms of legal contracts: transactional and relational. Relational contract obligations for employers correlated with employee expected length of stay with the firm. Transactional contract obligations were associated with careerist motive on the part of new recruits. The relationship between these and other motives of new hires was also investigated.

Introduction

Relationships and relational issues such as obligations play an increasingly important role in economics and organizational behavior (Williamson, 1979). Landlords often do not raise the rent on long-standing tenants. Employers pay senior employees more than junior ones doing the same work. Each demonstrates the influence of relationships on economics and behavior. A key issue in the formation of employee-employer relationships is emergence of psychological contracts regarding what each party owes the other.

Contracts are a mainstay in employment relations, establishing inducements and contributions basic to membership in an organization (Barnard, 1973). Whether written or oral, contracts are promises made in exchange for some compensation or return, and are enforced or at least recognized in law (Farnsworth, 1982; Murray, 1974). The decline in unionization in the United States reduces the number of employees affected by formal, written contracts of employment. Increasingly, however, nonwritten or implied contracts arising out of the employment relationship have been the subject of litigation (Heshizer, 1984; Koys, Briggs and Grenig, 1987) and practitioner concern (Dunahoe & Wangler, 1974). The purpose of this study is to investigate the emergence of employee-employer obligations by exploring an initial phase in the creation of psychological contracts. This research examines the relationship between new hire perceptions of their own and the organization's obligations. It also investigates the relations between perceived obligations and the career motives and intentions of new hires.

Attributes of a psychological contract

Psychological contracts are an individual's beliefs regarding reciprocal obligations. Beliefs become contractual when the individual believes that he or she owes the employer certain contributions (e.g. hard work, loyalty, sacrifices) in return for certain inducements (e.g. high pay, job security). As perceived obligations, psychological contracts differ from the more general concept of expectations in that contracts are *promissory* and *reciprocal*. Promises of future behavior (in this case on the part of the employer) typically are contingent on some reciprocal action by the employee. Company policies stipulating that employees who successfully complete a 90-day or 6-month trial period are to be designated 'permanent employees' promise job security in exchange for satisfactory performance as a newcomer. In the case of contractual expectations, the promise of reciprocity in exchange for some action or effort is the basis of the contract.

Promises need not be made explicitly. Weick (1981) argues that when two parties can predict what each other will do in an interaction, (based upon both inference and observation of past practices) a contract to continue these behaviors into the future emerges and structures their future relationship. Thus, expectations formed during interactions regarding future patterns of reciprocity can constitute a psychological contract for an individual who is a party to the relationship. More generally, we argue that when individual employees believe they are obligated to behave or perform in a certain way and also believe that the employer has certain obligations toward them, these individuals hold a psychological contract.

Contractual Continuum

TRANSACTIONAL CONTRACT

Focus

Economic, extrinsic

Time frame

Close-ended, specific

Stability

Static

Scope

Narrow

Tangibility

Public, observable

RELATIONAL CONTRACT

Economic and Non-economic,
socio-emotional, intrinsic

Open-ended, indefinite

Dynamic

Pervasive

Subjective, understood

Figure 1. Contractual continuum

MacNeil (1985) argues that there exist two types of contracts, anchoring opposite ends of a continuum underlying contractual arrangements within and outside of organizations (Figure 1). Transactional contracts involve specific monetizable exchanges (e.g. pay for attendance) between parties over a specific time period as in the case of temporary employment or recruitment by 'buy'-oriented firms (Miles and Snow, 1980). Such transactional contracts involve acquisition of people with specific skills to meet present needs (e.g. high tech firms, temporary employment agencies). Highly competitive wage rates and the absence of long-term commitments are characteristic of transactional contracts. Relational contracts, in contrast, involve open ended agreements to establish and maintain a relationship involving both monetizable and nonmonetizable exchanges (e.g. hard work, loyalty and security). Such arrangements are often found in what Miles and Snow (1980) termed 'make'-oriented firms which typically hire people at entry levels and develop them over time to meet future needs (e.g. IBM and other service-oriented companies). Inducements for membership in these firms characteristically include training and development opportunities and a long term career path within the firm.

Prevailing trends in employment and management practice suggest that the employee-employer relationship is undergoing many changes and can take a variety of forms. The increasing reliance on a service-orientation to establish an organization's competitive advantage has led to many firms emphasizing a strong value-oriented corporate culture (Peters and Waterman, 1982; Deal and Kennedy, 1982). Strong cultures are characteristic of firms that have stable employment, low turnover, and promotion from within (Cooke and Rousseau, 1988). Such organizations typically make substantial commitments to their employees, including long-term employment, in exchange for loyalty and a 'buy in' to the organization's culture and values. In contrast, an increasingly competitive environment has led to some firms seeking to maintain maximum flexibility in work force utilization by avoiding commitments, as in the case of many high tech firms. We postulate that distinct patterns of employment relationships are evidenced in employee-employer obligations and commitments to each other:

- (1) The first hypothesis of this study is that (1a) recruits' perceptions of employee and employer obligations will be interrelated, and (1b) that this pattern of interrelationship is consistent with the terms of two distinct types of contracts: Transactional and relational.

Note that hypothesis 1 is framed in terms of how the *same* individual perceives both his or her obligations to the employer and the employer's concomitant obligations to the employee. Two parties to a relationship, such as employee and employer, may each hold different beliefs regarding the existence and terms of a psychological contract. Consistent with Schein's (1980) formulation, psychological contracts exist in the eye of the beholder and it is at that (individual) level that beliefs in psychological contracts are postulated to affect both attitudes and behavior. Mutuality is not a requisite condition.

The present study focuses on the *employee's* perspective. Psychological contract will be operationalized with two sets of terms: employee-focused obligations (i.e. to be fulfilled by the employee) and employer-focused obligations (i.e. to be fulfilled by the organization). Note each set of obligations is from the *employee's* perspective. Employees with beliefs conforming to the predicted pattern of a relational contract are expected to report employer- and employee-focused obligations that would reflect a long-term relationship (such as loyalty on the part of the employee and job security provided by the organization). Another pattern of employee- and employer-focused obligations is expected to be consistent with a transactional view (e.g. hard work by employee and high pay by the organization).

Rousseau (1988, *In press*) differentiates individual-level psychological contracts from implied contracts that exist at the level of the employee-employer relationship. In this framework, psychological contracts are *individual* beliefs regarding obligations and implied contracts are

patterns of reciprocity observable at the *relational* level. The focus of the present study is on the individual-level psychological contract.

Psychological contracts arise in the context of a relationship (which can be relatively short-termed or of long duration). Relationships are interactions and exchanges with expectation of some continuity into the future. Whether individuals joining an organization anticipate working there for a short time or for life should correlate with the obligations they believe exist between themselves and the employer, therefore:

- (2) Expected tenure or length of stay in the organization is positively related to a perceived relational contract with the employer.

Employees who view their employment with a particular organization as a stepping stone to better jobs elsewhere are adopting more of a transactional view regarding their employment, thus we postulate that:

- (3) Careerism, where the new hire views employment with the organization as a stepping stone to other firms, is negatively related to the new hires' belief in a relational contract and positively to the transactional contract with the employer.

In contrast, those recruits who actively seek out a job with a specific organization should value having a relationship with that employer, therefore:

- (4) The new hire's desire for employment in a particular organization is positively related to perceived relational contract obligations.

Method

Subjects

Graduating full-time masters students from a major Midwestern U.S. management school were the subjects of this study. In this population, the average age at graduation was 28; 97 per cent had prior work experience. Females comprised 35 per cent of the population, minorities 9 per cent, and foreign nationals 10 per cent. Major industries chosen by graduates include investment banking/brokerage/securities 17 per cent, food/beverage/tobacco 14 per cent, commercial banking 14 per cent, consulting 8 per cent, consumer products 8 per cent and other 21 per cent. Functional areas graduates were placed in include investment banking 22 per cent, brand management 21 per cent, consulting 15 per cent and other 8 per cent. Salary ranged from \$24,000 to 90,000 with a median of \$43,500.

Only those students who had accepted full-time employment following graduation were eligible to participate. A survey was administered three weeks prior to graduation. At that point in time placement office records indicate that 260 students out of a total of 480 had accepted full-time jobs. Students with offers they had not yet accepted were excluded from this study. The survey was administered to students through campus mail. As an incentive to participate, students were offered the opportunity to participate in a lottery (with school memorabilia offered as prizes) upon return of the completed questionnaires. A total of 224 students returned completed questionnaires, yielding a response rate of 86 per cent.

The management school's placement program is an elaborate one, involving extensive on-campus recruitment by major U.S. and foreign employers. Recruitment typically starts at the beginning of the calendar year in which graduation occurs. The placement office develops and maintains contacts and relations with employers. The school has a national reputation as a major source of highly qualified graduates in business (*Business Week*, 1988).

Instrument

The questionnaire participants completed contained questions regarding their recruiting experiences, their perceptions of the recruitment/selection process, intentions, and motivations.

Using a 1 to 5 scale (from 'strongly disagree' to 'strongly agree') participants responded to a series of items asking them to describe their perceptions of their new employer and their relationship with it. Items were randomly ordered throughout the questionnaire. Each of the following scales was developed for this study. All were developed *a priori* based on specification of the underlying concept to be measured. Scales were subject to a principal factor analysis with varimax rotation, available upon request, which supported the independence of the factors underlying these scales.

Careerism

Expecting to change employers many times during one's career, was assessed using these items:

I took this job as a stepping stone to a better job with another organization.

I expect to work for a variety of different organizations in my career.

I do not expect to change organizations often during my career. (reverse scoring)

There are many career opportunities I expect to explore after I leave my present employers.

I am really looking for an organization to spend my entire career with. (reverse scoring)

These items yield an alpha reliability of 0.78.

Specific company

The extent to which the recruit wanted a job with this specific organization at the outset of recruiting, was measured by:

I specifically set out to get a position with this organization.

I really wanted a job with this particular employer.

These items yielded a scale reliability of 0.80.

Expected tenure

Participants were asked to indicate how long they expect to remain with this organization and in the specific job or position for which they were hired using the following scale: (0) less than a year (1) 1 year (2) 2 years (3) 3 years (4) 4 years (5) 5 years or more.

Obligations

Recruits were asked to indicate what they believed to be their obligations to the particular employer whose job offer they had accepted, the employer's obligations to them, and any stipulations made by their future employer during recruitment. The measure designed to tap terms of the employee's psychological content involves expectations of what the employee feels she or he owes and is owed in turn by the organization. This assessment is phrased in terms of obligations in the sense that obligations bind an actor 'by promise or contract' to a course of action (*Oxford English Dictionary* 1971). To determine what factors were plausible types of obligations emerging during recruitment, personnel and human resource managers from over a dozen firms (e.g. engineering, accounting, manufacturing) were interviewed in person or on the telephone. Several of these managers were participants in advanced executive programs, some were graduate students in a part-time evening program, and the remainder were research/consulting contacts. All were asked to describe the kinds of promises and commitments their firms sought from recruits during the selection process and what promises the firms made to the new hires. The responses elicited form the basis of the list of obligations assessed here. When recruits were asked

open-ended questions at the end of survey regarding what they believed they owed their employer (and *vice versa*) the types of obligations indicated reflected the kinds of categories used here¹.

Employer obligations were assessed (using a 1 to 5 point scale 'not at all' to 'very highly') by asking recruits to what extent they believed the particular employer whose job offer they had accepted obligated or owed them: Promotion; high pay; pay based on current level of performance; training; long-term job security; career development; support with personal problems.

Employee obligations were assessed using the same 1 to 5 scale. Respondents indicated the extent to which their obligations to that employer included: Working extra hours; loyalty; volunteering to do non-required tasks on the job; advance notice if taking a job elsewhere; willingness to accept a transfer; refusal to support the employer's competitors; protection of proprietary information; spending a minimum of two years in the organization.

Because the construct of contractual obligation involved interrelated obligations the two sets of obligation items were subjected to a canonical factor analysis identifying the empirical factors characterizing the relationship between perceived employee and employer obligations. Canonical factor scores are used in subsequent analysis involving measures of obligation (described below).

Stipulations made by the future employer were also assessed, including: The employee's obligation upon leaving the organization; commitments to stay with the firm for a specific period; giving notice if taking a job elsewhere; agreeing to give employer all products or services developed during employment.

Recruits responded 'yes' or 'no' to each stipulation, indicating whether any such stipulation had been made.

Analyses

Canonical correlation analysis was conducted to determine the underlying pattern of relations between specific employee and employer obligations. Canonical analysis yields two factor scores for each canonical function it produces: each factor score combining one set of variables into an optimally weighted correlate of the other set. The resulting pattern of weights is used to test hypothesis 1. All subsequent hypotheses are tested using canonical factor scores. Since obligations are mutual and contingent, this study derives its measures of psychological contract obligations through canonical factor scores weighting employee obligations in terms of perceived employer obligations (and *vice versa*). Statistically derived measures of obligation, using canonical analysis, build upon empirically observed relations between employee and employer obligations. Zero-order correlations were computed to assess the interrelations between variables investigated here and to test hypotheses 2, 3, and 4.

Results

The associations between specific employee and employer obligations perceived by the new hire provide information on the type of relationship fostered during the recruiting process. Canonical correlational analysis of the sets of employee and employer obligations new hires perceive yielded two significant canonical functions (Table 1). The first function (canonical correlation = 0.37, $p < 0.01$) demonstrated the link of a set of *employee* obligations (to work overtime, to engage in

¹In the open-ended questions, the most frequently mentioned commitments made to the employee included benefits, high pay, promotion, and career development; frequently mentioned commitments to the employer included doing one's best, working long hours and a minimum length of stay.

voluntary, extra-role activities, and to give notice before quitting, along with the *absence* of an obligation of company loyalty) on the one hand with a set of perceived *employer* obligations (for high pay, for performance-based pay, for training and development) on the other. The second function (canonical correlation = 0.35, $p < 0.05$) revealed a relationship between *employee* obligations for loyalty and a minimum length of employment with *employer* obligations to provide job security. The first function reflects essentially an empirical relationship between hard work on the part of the employee in exchange for high extrinsic returns (e.g. pay and career development) consistent with the terms of a transactional contract. In contrast, the second function suggests that loyalty and continued membership are exchanged for job security. These patterns consistent with the notion that employment can be characterized not only by transactions or discrete exchanges of extrinsic factors, but also by relational issues involving the creation and maintenance of a relationship between employee and employer, in other words, a relational contract. These results suggest that distinct types of employment relationship can be discerned from patterns of employee and employer obligations, supporting hypothesis 1.

Results of the canonical factor analysis were used to construct four canonical factor scores: Employer-focused transactional obligations, employer-focused relational obligations, employee-focused transactional obligations, and employee-focused relational obligations. Note that the perceptions of the new hire are the basis for all four of these measures of obligations, thus each can be construed to reflect aspects of the individual recruit's psychological contract. The recruit's perceptions of these various types of obligations are used in subsequent tests of the hypotheses tested here (Table 2).

Table 1. Canonical correlations between employee and employer obligations

Functions	Eigenvalue	Variance	Canonical correlations	Wilks lambda	F	P
1	0.16	36%	0.37	0.65	1.66	0.01
2	0.14	30%	0.35	0.75	1.43	0.05

Function	I		II	
Employer obligations	Weights ¹	r ²	Weight	r
Advancement	-0.02	0.46	0.30	0.47
High pay	0.59	0.63	-0.16	0.32
Performance-based pay	0.42	0.50	-0.12	-0.20
Training	0.38	0.55	-0.39	-0.08
Job security	-0.26	0.08	0.82	0.86
Development	0.39	0.58	0.25	0.30
Support	0.10	0.18	0.18	0.43
Employee obligations				
Overtime	0.75	0.80	-0.25	-0.05
Loyalty	-0.38	0.09	0.44	0.54
Extra role behaviors	0.34	0.50	0.16	0.38
Notice	0.49	0.48	0.10	0.08
Transfers	-0.01	0.10	0.30	0.43
No competition	0.05	0.13	-0.17	-0.03
Proprietary	-0.11	-0.04	0.03	0.08
Minimum stay	0.12	0.17	0.69	0.81

¹Canonical function weights.

²Redundancy coefficients (ie. correlations between the variable and the contrasting linear composite).

Table 2. Correlation matrix for obligations and motivations

	1	2	3	4	5	6	7	8	9	10	11
Obligations											
Employer contract											
(1) Transactional											
(2) Relational	0.00										
Employee contract											
(3) Transactional	0.37*	0.00									
(4) Relational	0.00	0.35*									
(5) Post-employment	0.16†	0.08	-0.03	0.21*							
(6) Commitment	-0.11‡	-0.02	0.12	0.17†	0.41*						
(7) Notice	-0.16†	0.05	-0.04	0.04	0.46*	0.28*					
(8) Proprietary	0.06	0.07	0.00	0.08	0.32*	0.20*	0.22*				
Motivations											
(9) Careerism	0.15‡	-0.18†	0.00	-0.35*	-0.10	0.03	0.03	-0.03			
(10) Company-specific	-0.01	0.07	0.02	0.07	0.03	-0.08	-0.10	0.14‡	-0.23*		
(11) Organizational tenure	-0.10	0.02	0.03	0.27*	0.02	0.09	0.10	0.05	-0.63*	0.24*	
(12) Job tenure	-0.12‡	-0.13‡	-0.02	0.13‡	-0.02	0.02	0.08	0.00	-0.27*	0.10	0.32*

* $p \leq 0.001$.† $p \leq 0.01$.‡ $p \leq 0.05$.

Consistent with hypothesis 2, the new hire's perception regarding his or her relational obligations to the employer is positively related to expected organizational tenure ($r=0.27, p \leq 0.001$), though tenure is unrelated to the perception of the employer's relational obligations ($r=0.02$, n.s.). Expected organizational tenure is unrelated to either employer or employee transactional obligations. It is the new hire's belief in his or her own relational obligations that relates to expected length of stay in the firm. Though no specific relationship between expected stay in first job and perceived obligations was postulated, results indicate significant negative correlations with both employer transactional and relational obligations ($r = -0.12, p \leq 0.05$; $r = -0.13, p \leq 0.05$, respectively). Employee relational obligations are positively related with expected job tenure ($r = 0.13, p \leq 0.05$). These results suggest that when an employee perceives himself or herself to be obligated to a relational agreement, that is, committed to being loyal and maintaining the employment relationship, a long-term relationship with the employer is anticipated, along with an extended stay in the first job or position with the company. New hires who perceive that their employer has made either transactional or relational commitments to them anticipate a more rapid move out of the first job or position than those recruits perceiving no such commitments.

Careerism is negatively related to perceptions of both employee and employer relational obligations ($r=-0.18, p \leq 0.01$; $r=-0.35, p \leq 0.001$), consistent with hypothesis 3. As postulated, it is also positively related to the existence of an employer's transactional obligations. In general, these results support hypothesis 3, consistent with the prediction that new hires approaching their careers in opportunistic fashion are less likely to be party to relational agreements with their employer, viewing employment in a more transactional way.

Hypothesis 4, that desire for employment with a specific company would be associated with relational obligations, is unsupported. It is possible that desire to work for a specific firm is unrelated to the formation of relational agreements but is associated with other career choice factors such as the dominance of a particular organization in its industry.

Examination of the relations involving employer stipulations shows weak relations between specific stipulations made by the hiring organization and perceived employee-employer obligations. Commitment to stay with the employer for a specific period of time is positively related to both employee transactional and relational obligations ($r = 0.12, p \leq 0.05$; $r = 0.17, p \leq 0.01$) and negatively related to employer transactional obligations ($r = -0.11, p \leq 0.05$). This pattern is consistent with the importance relational agreements place on continuity and an open-ended time frame (unspecified duration) in contrast to the absence of such commitments in transactional agreements. The requirement to give notice was negatively to perceived employer transactional obligations ($r=-0.16, p \leq 0.01$). The remaining correlations were not significant.

It therefore appears likely that the typical formal stipulations employers make contribute only slightly to general perceptions of contractual obligations. However, certain stipulations do appear to occur in conjunction with others. Post-employment restrictions on the employee are significantly related to commitments to work for the firm for a specific period ($r = 0.41, p \leq 0.001$), required notice prior to termination ($r = 0.46, p \leq 0.001$), and specification of organizational rights to proprietary information ($r = 0.32, p \leq 0.001$). Commitment to a minimum length of employment is related to required notice ($r = 0.28, p \leq 0.001$) and organizational rights to proprietary information ($r = .20, p \leq 0.001$). Specification of proprietary information and required notice are also significantly correlated ($r = 0.22, p \leq 0.001$).

The correlations in Table 2 are consistent with the predictions we would make regarding the interrelations among motivational measures. Careerism and the desire to work for a specific organization are negatively related ($r= -0.23, p \leq 0.001$). Expected organizational tenure is substantially and negatively related to careerism ($r= -0.63, p \leq 0.001$). Expected tenure in first job

is negatively related to careerism ($r = -0.27, p \leq 0.001$). Thus the measures of careerism and company-specific motives perform in a fashion consistent with their underlying constructs.

Discussion

Beliefs regarding employee and employer obligations evident following recruitment appear to be linked with the new hire's career motivations and intentions to stay with the recruiting organization. A person desiring long-term employment with a firm is likely to be party to a different set of commitments to the employer and to perceive himself or herself party to more relational obligations than someone viewing employment as a stepping stone to another job. Whether the hiring process takes the form of a transaction or establishes an enduring relationship can influence the obligations new hires perceive.

Previous research on expectations formed prior to beginning employment has focused upon realistic expectations, that is, whether the recruit has received accurate information regarding the new job (e.g. Reilly, Brown, Blood and Malatesta, 1981; Reilly, Tenopir and Sperling, 1979; Wanous, 1980). Such expectations differ from the terms of a psychological contract in that expectations are more general beliefs regarding conditions of employment, including intrinsic and extrinsic rewards. All expectations are not obligations. An employee expecting interesting work, only to find the job boring, may be disappointed but does not necessarily believe a promise has been broken or a deal reneged upon. However, it is likely that when a perceived obligation is unmet, a more emotional reaction results. This presumed consequence of unmet obligation has not yet been investigated and remains a critical issue in research on psychological contracts. Evidence from the present study does, however, justify a number of hypothesized features of psychological contracts, including the relationship between perceived employee and employer obligations. Results suggest that psychological contract is a construct relevant to employment and likely to be distinct from the more general set of expectations focused upon in previous research.

Although the results of this study suggest that certain beliefs in employee and employer obligations are related, the relationship between employee and employer obligations involves some unresolved issues. Certainly, many new hires believe in some form of *quid pro quo*, as demonstrated by the interrelations between employee and employer obligations. However, a considerable amount of variance in these two forms of obligation is unexplained by the other. Since there has been virtually *no* empirical research on perceived obligations in employment, unexplained variance might be due to the fact that the types of obligations measured here did not fully tap the array of possible commitments employees and employers can make to each other. Moreover, specific or local labor market factors can impact the relationship between employee and employer obligations. In the particular population studied here, it is a seller's market with many firms competing for these graduate students (most of the students who had not yet accepted postgraduate employment had several offers they were considering). Employers may offer *more* and recruits expect to give *less* in such an environment. Another concern is that this study focused only on the new hire's perception, his or psychological contract, and did not assess the employer's perspective. Since there are two parties to any contract, it is important that future research explore the employer's perspective. Knowing the employer's perspective, in addition to the new hire's, strengthens inferences made about reciprocity and the relations between employee and employer obligations. Along this line, future research might employ a more direct measure of reciprocity by asking both new hires and organizational representatives what specific actions and outcomes they expect the other party to provide them in response to their discrete contributions.

Employee perceptions regarding contributions and entitlements might to some extent reflect individual predispositions, consistent with an interactionist model of newcomer socialization (Reichers, 1987). Individual differences can operate such that certain individuals feel they are entitled to rewards and benefits, regardless of their contributions (Huseman, Hatfield and Miles, 1987). Others might enjoy contributing more than they receive to the benefit of others, including their employer. Moreover, some obligations, such as giving one's best effort, might be construed to exist without any expectation of a specific return. The role of individual differences in beliefs regarding obligations merits further research. However, in a recent study of third party beliefs regarding implied contracts to retain employees, no variation in beliefs was found due to individual differences (Rousseau and Anton, 1988). Nonetheless, the present study suggests that recruits do appear to think contractually about their relationship with a new employer and believe themselves party to obligations.

Results of the canonical analysis indicate that distinct types of employer-employee obligations exist. During recruitment, the data suggest certain firms may foster a relationship based on employee loyalty and long-term membership while others appear to emphasize the links between extrinsic rewards and employee effort and performance. These distinct patterns are consistent with make versus buy strategies of human resources management (HRM) described by Miles and Snow (1980). Make-oriented firms emphasize long-term contributions employees can make to the firm by investing in employee development and promoting from within. Buy-oriented firms make fewer commitments and appeal to a new hire's desire for high wages and other extrinsic rewards. Firms foster different psychological contracts by the way they reward their employees and the HRM strategies that underly personnel practices. The roots of these contracts may lie in the recruitment process. The present study suggests that contractual issues can play an important role in the employment relationship.

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