Implied Contract: Birth and Rebirth

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Abstract: Rousseau (1989) is known for her study that redefined the psychological contract and made quantitative analysis of it possible. This study clarified the concept of the psychological contract by contrasting it with the implied contract. Following this study, studies and conceptual expansion of the psychological contract have progressed; however, even Rousseau herself has stopped mentioning the implied contract. However, the implied contract, an objectively observable reciprocal pattern, is practically a substantial contract and is highly likely to be considered as a contract by courts, even if it is not stipulated in writing. Furthermore, a violation of the implied contract results in a termination response, which confirms its existence even more clearly. Therefore, this study summarizes anew the differences between the psychological and implied contracts and defines the phenomenon that should be classified as the implied contract.

Keywords: psychological contract, implied contract, contract violation

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Introduction

The term “psychological contract” is widely used to refer generally to an “unwritten expectation” between employees and employers. Argyris (1960) analyzed consensus building between employers and laborers and conducted the pioneering study of this concept. Through the further studies by Levinson, Price, Munden, Mandl, and Solley (1962), and Schein (1978), the mutual expectations, which are not necessarily stipulated in writing in the individual-to-individual (organization and employee) dyad, came to be considered as being as binding as a stipulated contract (Hattori, 2013).

Rousseau (1989) redefined the concept of the psychological contract to be more restrictive during the study of the psychological contract, and this has been cited by many following studies as a study that made qualitative analysis of the concept easier. In redefining the psychological contract, Rousseau (1989) presented the concept of the implied contract by contrasting it with the narrowly defined psychological contract, thus separating it from the original broad definition of the psychological contract. In short, analysis subjects of the psychological contract include individual beliefs and is thus subjective. In contrast, analysis subjects of the implied contract include relations between employees and organizations and are objectively observable by third parties. In particular, she specifies that the responses to contract violations differ between the psychological and the implied contracts.

However, Rousseau (1989) did not adequately provide concrete examples of psychological contract or implied contract violations. Furthermore, she did not refer to the implied contract following this study. Meanwhile, researchers limited their study to the psychological contract as referred to by Rousseau (1989) so that if they study individual beliefs or subjective expectations, they do not
have to consider the organization—which is the other agent of the contract. Consequently, even phenomena that ought to be classified as an implied contract have been discussed in the context of the psychological contract. This study reorganizes the differences between the psychological and the implied contracts and defines the phenomenon that ought to be classified as the implied contract.

**Psychological Contract**

Rousseau (1989) defined the psychological contract as “an individual’s belief regarding the terms and conditions of a reciprocal exchange agreement between the focal person and another party” (Rousseau, 1989, p. 123). The psychological contract emerges when an individual becomes aware that the organization is obligated to reward his or her own contributions. While it is possible that the belief that a reciprocal interaction will occur may be a precursor to a psychological contract, the psychological contract comprises the individual’s belief regarding the obligation toward that interaction. These beliefs held by each individual are unilateral toward the organization and do not constrain the beliefs of other parties.

The concept of the psychological contract focuses on the employee’s experience. The psychological contract is held by the individual rather than by the organization, and the organization can only provide an environment for individuals to form psychological contracts as the relevant party. Organizations cannot be aware of psychological contracts; only the employers or managers of the organization can become personally aware of their employees’ psychological contracts and accordingly respond to them.

The characteristics of the psychological contract can be summarized in the following three points:
(1) They are individual beliefs regarding the obligation of reciprocity between the individual and other parties.
(2) Promises and compensation are both understood subjectively.
(3) A belief exists that one party will provide rewards for the other party’s contributions.

As mentioned here, if the psychological contract is defined as the individual’s beliefs regarding the obligation of reciprocity, then they can be analyzed through individuals self-perceptions without the need to examine the organization. Whether this definition is correct, this definition of the psychological contract has made it easier for researchers to analyze it and has led to many following studies.

**Implied Contract**

This study analyzes the implied contract—the other contract concept suggested by Rousseau (1989). The implied contract is a reciprocal behavior pattern that, of the numerous behavior patterns, characterizes the relation between the employee and the organization and is observable by third parties. In other words, unlike the psychological contract that comprises an individual’s beliefs, the implied contract is a pattern or custom of obligations of reciprocity observable by third parties.

Therefore, the differences between the psychological and implied contracts are in terms of their levels. The psychological contract is at the individual level as it comprises an individual’s beliefs. In contrast, the implied contract exists at the relational level between organizations and their employees, comprising obligations of reciprocity that is observable by third parties. Furthermore, while the psychological contract is subjective to the individual, the implied contract is a social consensus on obligations of reciprocity and is thus objective.
The characteristics of the implied contract can be summarized in the following three points:

(1) They are a pattern of obligations of responsibility between related parties.
(2) They can be objectively observed by third parties.
(3) The reciprocal pattern repeats itself in the relation.

Violations of Psychological and Implied Contracts

The area in which the differences between the psychological and implied contracts are most marked are in responses to a violation of the contract. As stated before, Rousseau (1989) suggested two distinct contract concepts: the psychological and the implied contracts. Violation of these two contracts provide different results.

A violation of the psychological contract is the organization’s failure ¹ to respond to the employee’s contribution as per the employee’s expectations. ² Rousseau (1989) provides the following examples of psychological contract violations. “Long-standing employment with an organization, enduring low wages in anticipation of keeping a job, and developing organization-specific skills” (Rousseau, 1989, p. 128). She explains that if the employee’s contributions are not compensated by the organization as per the employee’s expectations, it causes a violation of the psychological contract.

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¹ Here, the organization does not mean the entire corporation that the employee is affiliated to, but it refers to the employers who manage the employees. Therefore, this study may depict a composition in which the employees are opposed to the organization.

² Throughout her study, Rousseau (1989) refers to the agents of the psychological contract as “parties,” rather than simply employees. However, we hypothesize that only employees’ psychological contracts are violated and regarding violations of the psychological contract as being unilaterally committed by the organization.
Violations of the psychological contract occur when the employee’s expectations are not met by the organization. Such violations damage the relation between the organization and the individual, which cannot be easily restored. A response to a psychological contract violation would be anger or indignation, deeper and more intense than a reaction toward unfairness. Restoring the sacrificed relation because of the violation requires a recovery of lost trust and necessitates a repeat of the initial development process.

In contrast, an implied contract violation changes the reciprocal pattern by annulling the relation built between the employee and the organization. This causes the reciprocal behavior pattern to lose its predictability. Rousseau (1989) provides the following example of an implied contract violation. “Employees who aid a firm’s competitors or who misappropriate funds and resources are not likely to be treated as trustworthy in the future and are likely subjects of termination.” (Rousseau, 1989, p. 133)

She explains that an implied contract violation differs from a psychological contract violation as it means a change in, or end of, the relation between the organization and employee.

A familiar concrete example of an implied contract violation is a broken engagement. While engagements are not written contracts, they are often considered to be contracts by courts. Therefore, a

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3 However, this case cannot be a concrete example of the psychological contract violation. This case presupposes long-term employment as a return for the employee’s contributions. However, long-term employment is objectively established as a behavior pattern and is a phenomenon that should be discussed in the implied contract context. Furthermore, in cases in which long-term employment is not guaranteed, the contract is explicitly terminated. This means that the contract has simply ended, and this does not count as a violation of a psychological contract, which is by definition not provided in writing. Rousseau (1989) did not provide any further concrete examples, and this has become a factor in variations occurring in the understanding of psychological contract violations.
unilaterally broken engagement brought to court may be considered as a contractual violation, and the court may order one party to pay for damages.

Now, let us organize the differences between psychological and implied contract violations. As the psychological contract exists at the individual level, violations of such a contract impact the same individual. The violated person bears trauma, and intense emotions such as anger or resentment emerge. This may result in personal behaviors, such as separation, loss of morale, or legal action against the organization.

In contrast, the implied contract is a concept at the relational level, and the relation between the organization and employee responds to violations. Consequently, the objectively observable reciprocal patterns change. For instance, when one agent stops performing a certain behavior that they have customarily performed, the reciprocal

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pattern ends. In other words, the parties involved provide a termination response when the implied contract is violated. Consequently, the organization may dismiss the employee, or the employee may leave the organization for another job. Alternatively, a possibility exists that the employee would be unable to trust the organization he or she is affiliated to, and this could cause overall effects such as the employee not providing the contributions he or she has had in the past. Table 1 presents a comparison of the psychological contract and the implied contract.

**Discussion**

Rousseau’s (1989) two concepts of the psychological and implied contracts remarkably differ with respect to whether the subject of analysis is “the individual or the employee and organization,” the observability is “subjective or objective,” and whether the response to a violation of the contract is “the employee bearing personal trauma or a change in the pattern of reciprocity between the employee and the organization.”

If the differences between the two concepts are correctly understood, then the subjects that can be analyzed as psychological contracts are not as numerous as mentioned by Rousseau (1989). Besides, the cases that Rousseau (1989) provides are too vague and cause misunderstanding.

For instance, long-term employment and seniority are not primarily individual beliefs. They are objectively observable reciprocal patterns that have continued till the present. A change in the reciprocal patterns of long-term employment or seniority, which have continued as usual, would mean that the organization has violated the implied contract. The employee’s response to this is not to receive a shock of betrayal and undergo a personal trauma, such as when a psychological contract is violated. The reaction would be
that “this was not what you promised,” and the employee would change the existing reciprocal pattern similar to the reaction when an implied contract is violated. In other words, the employee’s responses to the implied contract violation would be objectively observable termination responses, such as leaving the organization and changing jobs or changing their stance toward the organization.

Rousseau (1989) considered the non-fulfillment of long-term employment as a psychological contract violation, but this should be considered as an implied contract violation. In the same study, she discusses an employee aiding competitors or misappropriating funds as examples of implied contract violations. However, these are clearly crimes, and the employee would be judged according to the stipulated criminal code. This should not be treated as a case of an implied contract violation but as a simple legal violation. Rousseau (1989) does not provide any further concrete examples regarding cases of psychological contract violations or implied contract violations. This makes it difficult to differentiate between psychological and implied contracts, one of the factors that led to overemphasis on psychological contracts in following studies.

An easily understood example of an implied contract violation is the case of Company X, discussed in the study by Takahashi, Ohkawa, and Inamizu (2014a, 2014b, 2014c). In this company, no contractual guarantee existed regarding transfers; however, the custom was that there would be no transfers within the organization because no one had been transferred for years. In other words, there was an objective reciprocal pattern. We can infer that an implied contract existed among the employees that there would be no transfers. However, as a local business merged and became a national organization, it began reorganizing on a national scale and decided to integrate its offices all over Japan to one-third of the existing number of offices. When the company asked its employees to transfer, nearly 20% of the employees voluntarily resigned, which
greatly exceeded the company’s expectations. This phenomenon can be interpreted as there having been a implied contract violation that there are no transfers. As a termination response to the implied contract violation, the employees chose to leave the company and change jobs. In other words, there was an objectively observable change in the relation between the employees and the organization as well as the reciprocal pattern that can be considered as a response to an implied contract violation.

As mentioned here, phenomena that can be objectively recognized as a continuous reciprocal pattern, even if they are not stipulated in writing, such as long-term employment, seniority, and workplace regulations, must be analyzed as implied contracts. However, studies following the study by Rousseau (1989) have treated these implied contracts as psychological contracts, and many cases exist where they are simply analyzed based only on individual self-reports.

For instance, the studies on psychological contract conducted by researchers such as Aihara (2000), Hattori (2008), and Hattori and Lim (2015) presuppose that a guarantee of long-term employment is a psychological contract. They then conduct interview studies of employees of Japanese companies, analyzing the employees’ responses to the organizations’ violations of their guarantees of long-term employment. However, it is a mistake to unconditionally presume that a guarantee of long-term employment is a psychological contract. If the company that is the subject of study has a short history and no customary pattern of guaranteeing long-term employment exists, the employees may have a psychological contract comprising their subjective expectations and may assume, “I will not be dismissed without a special reason.” This should be analyzed from the perspective of a psychological contract. However, if the company that is the subject of study has a long history and employees have not been dismissed without a special reason for a long period, an objectively observable reciprocal
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pattern of guaranteeing long-term employment exists within that company. In this case, the guarantee of long-term employment is not a subjective assumption but an objective pattern. Therefore, according to the original definition, it must be analyzed from the perspective of an implied contract.

Many Japanese companies follow the objective pattern of custom, and the reciprocal pattern between the organization and employee is stable. Regarding personnel systems in particular, many companies still have the customs of long-term employment and seniority. Even if it is not stipulated in writing, custom dictates that employees cannot become section managers until they reach a certain age, regardless of their performance, or that there is no accelerated promotion in the annual promotion model that leads to becoming a manager. In such an environment, many cases exist where the reciprocal patterns can be objectively observed. Therefore, more importance should be given to the framework of the implied contract.

As the majority of business activities follow precedent or custom, many phenomena exist that can be observed as objectively observable reciprocal patterns. Therefore, the reality is that more phenomena exist that ought to be analyzed as implied contracts rather than as psychological contracts. Rousseau’s (1989) study had mixed results in the sense that she allowed the repeated occurrence of facile research that considered implied contracts as psychological contracts and only analyzed self-report data at the individual level.

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4 In contrast, in environments where personnel decisions or promotions are decided at the discretion of superiors, such as foreign-owned enterprises, a relatively higher possibility of non-customary results exist. In those cases, the employees would hold unilateral subjective assumptions regarding personnel matters and salary, giving room for the interposition of a psychological contract.
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References


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