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# Flexible employment contracts, the psychological contract and employee outcomes: an analysis and review of the evidence

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There has been growing interest in the impact of flexible employment contracts on workers affected by them. In the light of assumptions that such workers are significantly disadvantaged, European-wide legislation has been introduced to ensure that they are treated similarly to permanent employees. The evidence on the impact of flexible employment contracts on employees' attitudes and behaviour is reviewed within the framework of the psychological contract. The body of research is limited but is sufficient to challenge the assumption that workers on flexible contracts are invariably disadvantaged. Those on contract of choice, particularly knowledge workers who may be pursuing boundaryless careers, are especially likely to report positive outcomes. The evidence also indicates that a framework that incorporates the psychological contract provides additional value in explaining variations in outcomes.

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## Introduction

Employment flexibility has become a management mantra, and there is evidence that the various forms of employment flexibility have been increasingly applied in advanced industrial societies in recent years. Although employment flexibility takes many forms, one that

appears to hold particular attractions for organizations is contract flexibility. This entails the use of fixed-term or temporary contract arrangements as a basis on which to employ a proportion of the workforce. There appear to be benefits through the ability to adjust the workforce size rapidly as demand for the firm's products or services shifts; there may be less

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need to invest in training and development of contract staff; and contract workers may not incur the range of substantial indirect staff costs. Von Hippel *et al.* (1997) summarised the benefits to organizations in the US in terms of cutting costs, increasing flexibility and avoiding restrictions. Matusik and Hill (1998) added the importance of contingent workers as a source of knowledge creation within companies.

For workers, fixed-term and temporary contracts might plausibly be associated with higher job insecurity, a sense of marginalization and loss of opportunity for development, for career and for organizational identification. Beck (2000) described the growth of such contracts as shifting the risk from the employing organization to the individual. In other words, contract workers can be portrayed as marginal and disadvantaged. This has led to European Union legislation to ensure employment rights for contract workers which in many respects parallel those for permanent employees. However, more recent analyses have offered a rather different picture. The growth of the knowledge worker has created a new opportunity for freedom and autonomy from the controls exercised by organizations. The concept of the 'free worker' who thrives on independence and high levels of employability has been presented as an opportunity to turn the tables and assert the power of the knowledge worker over the knowledge-hungry organization (Knell 2000). From a slightly different perspective, Arthur and Rousseau (1995) argued that the growth of what they term the boundaryless career and what Capelli (1999) described as a preference for flexibility reflect a change in employment choices by growing numbers of workers. Such workers will seek fixed-term and temporary contracts by choice; they might be self-employed. Or they might move in and out of more permanent roles as it suits them. The key point is that they seek rather than avoid flexible employment contracts and negotiate contracts that serve them first and the organization second.

There are, of course, many variants between the exploited contract worker and the 'free'

knowledge worker with a boundaryless career. However, if we are witnessing the emergence of a new era of employment flexibility, we need to map its forms and understand its implications for organizations and more particularly for individuals. The purpose of this paper is to review what we know about the impact of contract flexibility on workers. To do this, we shall draw on a highly international range of studies and use the conceptual framework of the psychological contract. Arguably, this is a particularly appropriate framework for two main reasons. One is that, in its language, it has a number of direct parallels with the employment contract. The second is that it captures the individualization of the employment relationship which seems to be associated with the growth of contract flexibility. As a first step, however, we need to present a picture, admittedly a somewhat blurred and incomplete picture, of the growth of contract flexibility in recent years so that we can keep this growth in perspective.

This paper is organized into a number of sections. The first charts the nature and extent of contract flexibility and, more specifically, forms of temporary contract. Subsequent sections review evidence about the relation between temporary contracts and contract of choice, the psychological contract, employment security, organizational commitment, work performance and organizational citizenship behaviour and finally, health, well-being and job satisfaction. A concluding section draws attention to the paucity of research and the strong case for a fuller research agenda integrating employment contracts, the psychological contract and employee well-being within an appropriate contextual and comparative framework.

### **Growth of Flexible Employment Contracts**

Alarmist press reports about the end of traditional employment and the proliferation of temporary and insecure jobs have proved wide of the mark. In most countries, there has been

a modest growth of flexible employment contracts. However, the extent of such contracts depends partly upon definitions.<sup>1</sup> For example, Belous (1989) argued that what he termed contingent work covered all non-standard employment contracts including those of part-timers, the self-employed and those working for business services as well as the more conventional temporary workers. On this basis, they make up well over 30% of the US working population, while in the UK and Japan they are close to 40%. Most definitions would exclude part-time employment on the grounds that it may be permanent and stable. So Polivka and Nardone (1989) opted for a definition based on an absence of expectation of continuing employment, adding 'and one in which the minimum hours can vary in a non-systematic way' (p. 11). Indeed, the official American Bureau of Labor Statistics definition states that 'Contingent work is any job in which an individual does not have an explicit or implicit contract for long-term employment' (Polivka 1996, 4). The US Bureau distinguishes contingent workers from 'alternative employment arrangements'. The four main forms of alternative arrangement are independent contractors, temporary help agency workers, contract company workers and on-call workers. They overlap considerably with contingent workers, but the 1995 US mini census data indicated that contingent workers made up 4.9% of the US workforce, while workers on alternative employment arrangements made up 10%, of which much the largest proportion were independent contractors, independent consultants and freelance workers (Cohany 1996).

In their analysis of developments in Silicon Valley, which they use as a key case on the grounds that it is usually an exemplar of the shape of things to come, Carnoy *et al.* (1997) opted for the more restrictive definition and prefer the term flexible employment, because it has fewer negative connotations. In common with most American studies, they used the growth of Temporary Employment Agencies or what are sometimes described as

Temporary Help Services as their key indicator of the growth of flexible employment. At any one time, only about 1% of the American workforce are employed with and through such agencies. But in Santa Clara County, the heart of Silicon Valley, agency-linked temporary employment made up 3.4% of employment in 1995 and constituted much the most rapidly growing form of employment. A further unidentifiable proportion will have been directly hired as temporary workers by organizations. It is possible to expand quite considerably the number of potentially flexible workers by including the self-employed and those employed in the sort of business services that are often sub-contracted. On this basis, they estimate that about 22% of Silicon Valley workers might be classed as engaged in flexible employment. However, as noted above, the US Bureau of Statistics explicitly excludes business services unless their employees meet the criteria set out above.

Although there appears to be a trend towards greater use of various types of temporary contract, any growth, more particularly among those who would prefer permanent work, will be partly a function of the economic and employment circumstances. In support of this, there is some evidence that in the US the numbers in temporary work dropped between 1995 and 1999, in line with the drop in unemployment and as employers recognized the need to attract and retain workers.<sup>2</sup> Coupled with the possible impact of legislation in Europe, this should remind us that there is nothing inevitable about the growth in temporary contracts.

In Europe, there is a variety of sources of data. EUROSTAT data comparing employment patterns in 1983 and 2000 (cited in EIRONLINE 2002) reveals across EU countries a growth from 9.1% to 13.4% in the proportion of workers on fixed-term contracts. In 2000, the highest proportion was to be found in Spain (32.1%), Portugal (20.4%) and Finland (17.7%). At the lower end, we find Luxembourg (3.4%), Ireland (4.6%) and the UK (6.7%). The largest increase over the period



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occurred in Spain, France and The Netherlands. In contrast, there was a decline over this period in the proportion of people on fixed-term contracts in Greece, Denmark and Ireland. Taking a more recent period, and using a somewhat different sample, the third European Foundation Survey, conducted in 2000, found that 82% of workers in Europe were in permanent jobs, the same proportion as in 1995, the date of their previous survey. If anything, there was a slight decline in the proportion on fixed-term contracts, from 11% to 10% and in temporary contracts, from 15% to 12% (some people employed by temporary agencies had permanent contracts). The contract status of the remainder is uncertain.

What these surveys reveal is a long-term trend away from permanent full-time employment. However, much of the growth has been in part-time employment. There has been a long-term growth in fixed-term and temporary employment but the scale remains relatively modest. There is some suggestion that this growth may have come to a stop in Europe between 1995 and 2000. There are major differences between European countries both in the scale of fixed-term employment and in trends towards or away from its use. Some of these differences are illustrated in a review by Brewster *et al.* (1996) for the EU, which set out the position in 1995, based partly on the CRANET surveys in which senior managers report on their company practices. The review confirmed that local legislative factors have a big impact on practice. Therefore in Spain, 35% of the workforce were on some sort of temporary contracts and only 3% of new contracts are permanent. In France, 8% of women and 7% of men in employment were on temporary contracts, but most new jobs offered temporary, often fixed-term contracts.

In the UK, the proportion on temporary and fixed-term contracts remains quite low. Specifically, the regular Labour Force Survey (DTI 2002; Tremlett and Collins 1999) suggests that, after being stable for a number of years up to 1991, at about 5% of the labour force, the temporary workforce grew to about

7.8% in 1997, largely because of an increase in male temporary workers, but had declined to about 6.8% by 2001. In the mid-1990s, temporary workers made up about 10% of the public sector workforce but around 5.7% of the private sector. Casey *et al.* (1997) argued that the increase can be largely attributed to changes in employers' policies and practices. The increase between 1992 and 1996 was reflected in an increase of 148% in agency workers, 39% in contract workers, 21% in casual workers and no change in seasonal workers.

The evidence from the CRANET survey data confirms yet again that managers across Europe believed that they are adopting more flexible employment practices. The proportion reporting an increase in use of fixed-term contracts ranged from about 70% in the Netherlands, 66% in West Germany and 60% in Ireland to 18% in Norway and 23% in Denmark. There were also reports of considerable increases in the use of temporary and casual workers. Yet, despite the general trend towards an increasingly flexible workforce, across all European Union countries the great majority of workers remain on permanent contracts.

Even though they may not be a dominant form of employment, flexible contracts are important as possible indicators of the shape of things to come. They may also be important because of the range of workers affected by them. They may affect those on the margins of employment whose lack of skills and negotiating weight has meant that employers can treat them less favourably; and they may include those with knowledge and skills that are in high demand and who are in a position to dictate to employers how long and on what terms they are willing to work for them.

At the outset, a distinction was drawn between the exploited insecure temporary worker and the new 'free' or boundaryless worker. Marler *et al.* (1998, 2002) attempted to develop this distinction and argued convincingly that we should not treat temporary workers as homogeneous. A key question then becomes the basis for any useful distinctions.

Below we refer to the case made by McLean Parks *et al.* (1998) for using the psychological contract as the key analytic variable because of its range of flexible dimensions. However, we still need to classify the independent variable. Marler *et al.* (1998) distinguished between four main categories of temporary worker based on their preference for temporary work and their skill/knowledge level. The category they were most interested in, the boundaryless worker, has high skills/knowledge and a high preference for temporary work; the transitional worker has high skills/knowledge and a low preference for temporary work and is therefore likely to view temporary work as a transitional arrangement; the traditional worker has low skills/knowledge and a low preference for temporary work; finally, the permanent temporary has low skills/knowledge and a high preference for temporary work. They tested the validity of their distinction on a sample of 276 temporary workers and found general support for it and for an association between temporary 'type' and a range of independent variables, including reasons for undertaking temporary work, perceptions of alternative job opportunities, age, gender and marital status. This is confirmed in their later study (Marler *et al.* 2002).

In a study for what was then the UK Department of Education and Employment, Tremlett and Collins (1999) reported a survey of 607 workers who were either currently in temporary employment (58%) or had been in the past 12 months (42%). They were predominantly professional (22%), clerical/secretarial (19%) and associate professional/technical (15%). Just under half were on fixed-term contracts, the remainder either casual workers or with temporary agencies. Among those on fixed-term contracts, the length of the contract varied considerably; for 41% it was between 3 and 12 months' duration and for about one in seven it was more than two years. Sixty-eight per cent could cite some benefits of temporary work, including, in particular, flexibility, choice of work, its role as a stepping stone and variety of work. Some also

cited the need for less commitment and pressure and a better work-life balance. Seventy-nine per cent cited drawbacks, especially agency workers, men and younger workers. The main drawbacks were insecurity, lack of benefits, uncertain wages, being treated differently from permanent workers and the difficulty of building work relationships. Nearly half of those still in temporary work would accept their present job if it were offered on a permanent basis, but about 40% definitely would not. The remainder set specific conditions for doing so, such as better money or a guarantee of convenient hours. Focus group discussions indicated that the desire for permanent employment was a function of felt insecurity and aspects of lifestyle. Just over half said they were treated the same as permanent employees, while about one in seven said they were treated worse. Finally, temporary work was undertaken mainly because people wanted to do the particular job (30%), needed the money (29%) or for various aspects of flexibility. In practice, there was little evidence that temporary work did serve as a stepping-stone to permanent employment in a particular setting.

In summary, there has been growing interest in, and concern about flexible employment contracts, culminating in European-wide legislation intended to ensure that those on such contracts are not treated less favourably than those in permanent employment. Despite some rather dramatic forecasts about the end of permanent employment, growth in the numbers on flexible employment contracts has been slow in recent years, and they remain a small but not insignificant proportion of the workforce. There are considerable national variations in the proportion employed on such contracts. It has been argued that workers on flexible employment contracts should not be viewed as homogeneous. Indeed, while much of the growth in the use of such contracts has been attributed to organizational policy initiatives, there is some indication that certain types of worker are taking the initiative in seeking this type of employment. If this is so,



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presumably they believe they stand to gain in some way. This is important in the context of a popular assumption that those on flexible employment contracts are somehow disadvantaged. To determine whether or not this is the case, we therefore turn to a review of the relevant research.

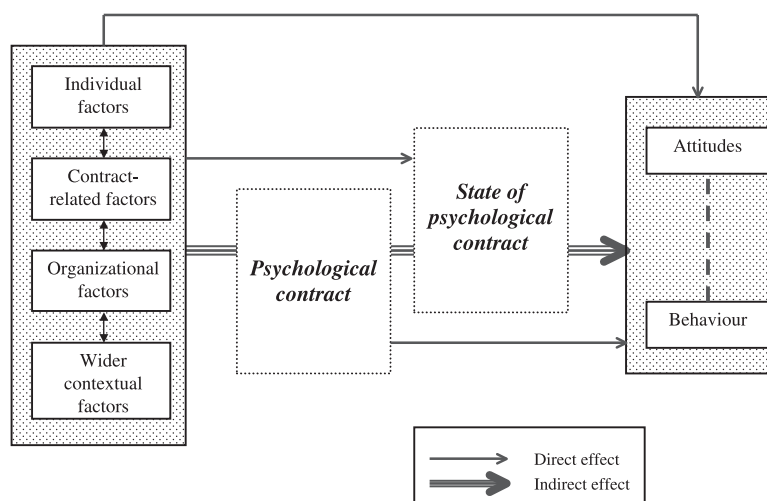
**Employment Contracts and the Psychological Contract**

The conceptual framework within which we shall explore the impact of flexible employment contracts on employee attitudes and behaviour allocates a central role to the psychological contract. As noted above, it has a particular resonance in this context because it uses the metaphor of the contract. However, it also offers a flexible framework within which to consider a range of outcomes.

The psychological contract has been defined by Schein (1978) as ‘a set of unwritten reciprocal expectations between an individual employee and the organization’ and by Herriot and Pemberton (1995) as ‘the perceptions of both parties to the employment relationship, organization and individual, of the obligations implied in the relationship’. Although much of the research (for an overview, see

Rousseau 1995; Rousseau and Schalk 2000) has viewed the psychological contract from an employee perspective (and this will be the approach adopted here), it is useful to recognize that the psychological contract, like the employment contract, involves two parties. Guest (1998) and Guest and Conway (2002) suggested that it is useful in considering the range of antecedents and consequences of the psychological contract to focus on the *state* of the psychological contract defined in terms of the extent to which promises are kept, how fair they are perceived to be and trust in whether they are likely to be delivered in the future. This leads to a model of the sort set out in Figure 1, which locates the employment contract and the state of the psychological contract in relation to attitudinal and behavioural outcomes. It also gives some weight to contextual factors within the organization. A broader framework might extend this context outside the organization to include national legislative, economic and employment factors that might be expected to affect both attitudes towards and the experience of being employed on temporary contracts.

The concept of the state of the psychological contract goes to the heart of the issues considered in this review. Do those on flexible



**Figure 1.** Employment contracts, the state of the psychological contract and employee outcomes.

employment contracts perceive fewer or different promises and obligations? Do they have different expectations? Are promises made to them more or less likely to be delivered than those made to permanent employees? How does their evaluation of the fairness of 'the deal' and the delivery of the deal affect their attitudes, their behaviour and their general well-being? And how does this differ from permanent employees?

McLean Parks *et al.* (1998) have provided a conceptual overview in which they argue that progress in understanding the differences in the impact of flexible employment contracts can be explained more effectively by utilising dimensions of psychological contracts. To achieve this, they suggest that the dimensions typically used in the analysis of psychological contracts need to be expanded to include stability, scope, tangibility, focus, time frame, particularism, multiple agency and volition. They argue that these dimensions will often be easier and more useful to utilize in comparisons across types of employment contract than the more objective attempts to classify the types of employment contract cited earlier and therefore offer a framework for future research. While this is a helpful addition to the conceptual analysis, confirming that the psychological contract could and perhaps should be adopted as an intervening variable and that the psychological contract is itself a flexible and still evolving concept, it has yet to be incorporated into the published research. Indeed, there are formidable problems in operationalising some of the dimensions. However, their analysis provides a further indication that incorporating the psychological contract into the analysis does have the potential to offer distinctive insights into the consequences of flexible employment contracts.

In the following sections, the framework outlined in Figure 1 is used as a basis for assessing the consequences of flexible employment contracts for employees' attitudes and behaviour. While the primary interest lies in outcomes of interest to employees such as employment security, job satisfaction and

well-being, much of the available research has focused on organizationally relevant outcomes such as commitment, work behaviour and organizational citizenship behaviour. We shall therefore also consider these outcomes. First, however, we explore an aspect of employment contracts that has consistently been shown to have an important influence, namely whether the worker is employed on the contract of choice.

### Contract of Choice

Building on the analysis of Marler *et al.* (1998) and the arguments about the growth of the 'free', boundaryless worker, a key issue likely to affect reactions to any form of temporary work is whether or not the worker is on his or her preferred type of employment contract. This issue has been covered in a number of surveys, and the results typically reveal that between 25% and 40% of temporary workers prefer such contracts. In the UK survey reported by Tremlett and Collins (1999), 147 out of 607, just under a quarter, did not want a permanent job. As the main reasons for this, they cited not wanting the commitment that goes with permanent employment (21%), the loss of freedom to choose the work they wanted to do (19%), being too old (18%) and general lack of interest in permanent employment (18%). In the US mini-census survey, 30.5% of those in temporary employment expressed a preference for temporary work (Polivka 1996). Much the most widely cited reason for undertaking temporary work was that it was the only type they could find, although a range of personal reasons linked to family circumstances and education were also quite widely cited. A study by Barringer and Sturman (1999) of temporary help agency workers in the US also found that about 30% expressed a preference for temporary work. In a sample of 90 workers employed by Manpower in Israel, 46.5% said they were temporary help agency workers by choice (Krausz *et al.* 1995). In a study of 174 temporary workers in the USA, Ellingson *et al.* (1998) found that



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58% would prefer permanent employment. Marler *et al.* found that about a third of their sample of 890 temporary USA workers preferred their temporary contract. Finally, in Sweden, Isaksson and Bellagh (2002) found that 75% of their sample of 257 temporary workers would prefer a permanent contract.

One of the most interesting studies on contract of choice was reported by Aronsson and Goransson (1999). They analysed the responses of a sample of 1564 Swedish workers to a survey conducted in 1995. The survey deliberately over-sampled those on various forms of 'temporary' contract. One, perhaps unexpected, finding was that 28% of those in permanent contracts were not in their occupations of choice and, of these, 25% would prefer to be on a temporary contract in their occupation of choice. In contrast, 58% of those in temporary employment in their occupation of choice would prefer to be in permanent employment even if not in their occupation of choice. However, among those who were in temporary employment and not in their occupation of choice, only 52% would opt for permanent employment over occupation of choice. This study implies that we need to consider contract of choice but also need to recognise that results may also be influenced by being in occupation of choice. This in turn is likely to be linked to the state of the labour market.

Since about a third of those working on a flexible employment contract express a preference for it, it does appear that 'contract of choice' is a variable that needs to be taken into account in considering employee outcomes of flexible contracts. However, we need to be cautious about how we identify preferences. In a study of 186 temporary workers in seven agencies in the USA, Feldman *et al.* (1995) reported that 77% claimed to be voluntarily temporary, 41% agreed that they were temporary by choice but 80% were looking for a permanent job. There are, therefore, degrees of choice that need to be considered in any sophisticated analysis of this variable. At the same time, we need to take account of the

circumstances that lead to a preference for temporary contracts and to the perceptions of choice, which in some cases may be severely constrained. More specifically, building on the work of Marler *et al.* (2002), we need to learn more about the kinds of people who prefer temporary work and, in particular, what proportion might be classified as knowledge workers, and what distinctive personal circumstances are likely to lead to this preference.

**Research on Employment Contracts and the Psychological Contract**

There has been only a modest amount of research explicitly incorporating the psychological contract into the study of temporary work. Van Dyne and Ang (1998) compared 'contingent' and permanent professional service employees in Singapore with respect to their psychological contract, organizational commitment and citizenship behaviour. Singapore was chosen because it has a tight labour market in which contingent work may be seen as more attractive for some workers. In line with their hypotheses, they found that contingent workers had a more limited psychological contract, in terms of what they felt the organization was obliged to provide for them. They also found that employment contract status moderated the strength of the relationship between the psychological contract and outcomes. This implies that the psychological contract is a potentially stronger influence on outcomes for temporary rather than permanent employees.

A number of studies have explored the psychological contracts of temporary workers in the UK. Millward and Hopkins (1998) established that, unlike permanent employees, 'temporary' workers were likely to perceive their contracts as more transactional than relational. Using a large sample of UK local government employees, Coyle-Shapiro and Kessler (2002) found that permanent employees reported significantly higher numbers of obligations and inducements than did 'temporary' employees. They also reported higher



commitment and citizenship behaviour but significantly lower levels of organizational support. A fuller analysis looking at the interaction effects revealed that with respect to citizenship behaviour, temporary workers were more sensitive to variations in obligations and inducements than permanent employees. In short, variations in obligations and inducements have more influence on the organizational citizenship behaviour of temporary than permanent employees.

Guest *et al.* (2003) compared contingent and permanent employees in four organizations in the UK. In doing so, they separated the types of contingent contract into fixed-term, temporary and agency contracts. They found that those on fixed-term and agency contracts but not temporary contracts reported a better *state* of the psychological contract than permanent workers. In a series of surveys of a random sample of workers in the UK, Guest and Conway compared the state of the psychological contract of workers on permanent, fixed-term and temporary contracts. The results vary a little from year to year, but there is some indication that those on fixed-term contracts report a better state of the psychological contract (Guest and Conway 1998). In a longitudinal study, they also found that being on a temporary contract predicted reported improvements in the state of the psychological contract (Guest and Conway 2001).

These studies confirm the relationship between the employment contract and the psychological contract. It seems probable that the psychological contracts of contingent workers are more transactional and more restricted than those of permanent employees. However, the evidence also suggests that the behaviour of temporary employees may be more sensitive to variations in the content of the psychological contract than that of permanent employees.

### **Objective and Subjective Employment Security**

One of the ways in which we might expect to see those on flexible employment contracts at

a disadvantage is with respect to job security. This could be important, because there has been extensive research showing that job insecurity is associated with a range of negative outcomes affecting satisfaction at work, psychological well-being and life outside work (see, for example, Beard and Edwards 1995; De Witte 1999; Nolan *et al.* 2000). However, there is sometimes confusion in the research between objective and subjective indicators of insecurity and, although we might expect the two to be related, the association is far from perfect (Robinson 2000). Objective job security refers to the probability that a worker will lose his or her job and have to change employer. Subjective job security refers to the perception that the job is more or less secure, whether or not there is objective evidence to support this. Indeed, it may be useful to go further and distinguish the cognitive and affective dimensions of job security (Hartley *et al.* 1991). Cognitive expectations of job loss may not be associated with the affective state of anxiety about job loss because of perceptions of attractive alternatives in the labour market. Here we are concerned with subjective perceptions of job security and use the terms job and employment interchangeably.

Pearce (1993) and Pearce and Randel (1998) were among the first to study the relationship between flexible employment contracts and job security. Pearce and Randel (1998) hypothesized that the relationship between flexible contracts and perceived job insecurity would be mediated by whether their employment contract was voluntarily chosen. The same study also explored any differences in satisfaction, trust and job performance between workers on temporary and permanent contracts. The sample consisted of 199 permanent employees and 24 flexible contract employees in the American aerospace industry. The contract workers had significantly higher earnings than the permanent employees. The study found that there were virtually no differences between temporary and permanent workers in their levels of perceived job security, in their job satisfaction, their trust and their job



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performance. Contrary to expectations, voluntarily choosing a flexible contract had no impact on perceived security, though it was associated with higher job satisfaction and trust. Although the study examines a small sample of highly specialized contract workers, it throws doubt on the conventional assumption that workers on flexible employment contracts are disadvantaged.

In contrast to the findings of Pearce, several other studies which have explored the relationship between type of employment contract and job security are consistent in confirming that those on flexible employment contracts report lower levels of job security than those on permanent contracts (see, for example, Kaiser 2002; Parker *et al.* 2002). In a study of Swedish hospital workers, Sverke *et al.* (2000) similarly found that those on flexible employment contracts reported higher levels of job insecurity. The data from national surveys in the UK confirm this association. For example, based on a sample of 2000 workers drawn largely from the public sector, Guest and Conway (2000) found a negative association between both fixed-term and temporary contracts and perceived job security, even after controlling for other background factors. Longitudinal analysis (Guest and Conway 2001) also revealed a negative link between fixed-term contracts and job security.

Research by Guest *et al.* (2000) comparing different types of flexible employment together with permanent contract workers is less clear cut. They found that temporary workers reported lower job security but agency workers higher security than permanent employees. When other individual and organizational factors were taken into account, those on fixed-term contracts reported significantly higher and those on agency contracts marginally higher job security, while those on temporary contracts reported marginally lower perceived job security. Being on contract of choice was also associated with higher job security. The differences may be accounted for by the predominance in Pearce and Guest *et al.* of samples of knowledge and high-skill workers, who

may be more likely to seek out and welcome flexible contracts, while national samples and those in other studies incorporate workers in a wider and rather different range of occupations.

There is a larger literature exploring the determinants of perceived job security. These range from economic and social analyses (see, for example, Burchell *et al.* 2000; Guest 2000) to psychological studies. Even these do not always clarify the picture. For example, Krausz *et al.* (2000) examined the role of what they termed 'attachment style'. Building on the work of Hazan and Shaver (1990), who adapt earlier ideas of Bowlby, they examined the relationship between secure, anxious and avoidance styles of attachment and preference for types of employment contract among software house workers. Contrary to expectations, there were no differences between avoidant and secure styles in contract preference. Although the study addresses a distinctive aspect of personality, it raises doubts about the impact of disposition on contract preference and possibly on the experience of different contract types.

The only studies which could be identified that have explored the relationship between the psychological contract and job security are the series of annual surveys in the UK reported by Guest and Conway. The 1997 survey (Guest and Conway 1997) of a random sample of 1000 UK employees paid particular attention to job security. It found that levels of subjective job insecurity were generally low. Most felt either very (37%) or fairly (49%) secure, while 24% admitted to feeling either very or fairly worried about their job security. Although the data were cross-sectional, it was assumed in a regression analysis that the psychological contract was more likely to affect job security than vice versa. The results showed that the factors most strongly associated with higher job security were: not expecting to be made redundant in the next two years, a positive state of the psychological contract, confidence in the availability of satisfactory employment alternatives, working in a high involvement climate and being younger. This

suggests that the state of the psychological contract does matter, together with perceptions of the internal and external labour market.

While the balance of evidence confirms the expected association between flexible employment contracts and higher subjective job insecurity, there is sufficient evidence to suggest that we cannot offer this as a general conclusion and that we need to take into account the type of workers and why they are on a flexible employment contract. The absence of a clear and consistent association between objective indicators of job security, reflected in temporary versus permanent contracts and the subjective experience of job insecurity, suggests that we need to include subjective job security as a variable in any analysis of the employment contracts and employee well-being. Furthermore, the analysis by Guest and Conway (1997) indicates that the psychological contract may play an important role mediating the relationship between objective and subjective job security.

### **Organizational Commitment**

Gallagher and McLean Parks (2000) provided a comprehensive conceptual analysis of the potential relationship between 'contingent' work and organizational commitment. They distinguish carefully between types of contingent work and between types of commitment – to job, occupation and organization. Once again, they provide a useful research framework and agenda rather than any new empirical evidence.

In the US, most workers on flexible contracts are employed through temporary employment agencies, and there has been considerable interest in the issue of dual commitment to both the temporary agency, which operates as the formal employer, and to the organization to which they are assigned. There are echoes in this of earlier work on dual commitment to both company and trade union (Angle and Perry 1986; Conlon and Gallagher 1987). Barringer and Sturman (1999) used a social exchange model to explore

commitment to both temporary agency and assigned employer. They showed that these were independent forms of commitment and that, on average, commitment to client organization was somewhat higher than commitment to agency. However, the social exchange model, and more specifically the level of social support for the focal organization, was able to explain a significant amount of the variance in commitment to both agency and client organization. The study found that about 30% expressed a preference for temporary work but that this preference was associated with significantly lower commitment to the client organization. There was a non-significant trend in the same direction for commitment to the agency.

Benson (1998) reports a study of contract maintenance workers in Australia. The workers had been permanently employed, but their work had been sub-contracted to a major maintenance contractor that offered permanent contracts but not a permanent association with client organizations. His analysis of the small sample of 55 contract workers again revealed higher levels of commitment to the client organization than to the contractor. The analysis also highlighted the importance of some form of exchange model; supervisor and co-worker support were significantly correlated with commitment to their employer, as was training provision. Resource adequacy and role clarity were associated with commitment to the client or host organization. The study confirms that commitment to employer and client are rather different constructs and that dual commitment is possible and, indeed, quite widespread in this sample.

Research on the commitment of temporary agency workers has also been reported by Gallagher and Futagami (1998), based on a sample of temporary workers in Japan, and by Newton McClurg (1996) in the US. As reported by Gallagher and McLean Parks (2000), both show, unsurprisingly, that commitment to the temporary agency is positively associated with the number of assignments and with tenure at the agency.



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There have been very few studies comparing the commitment of permanent and temporary workers. In her study of aircraft industry workers, Pearce (1993) found no difference between permanent and temporary workers. In contrast, Eberhardt and Moser (1995), comparing temporary and permanent part-time workers in a single firm, found that the temporary workers were less committed. In a study of Swedish hospital workers, Sverke *et al.* (2000) obtained similar results.

Van Dyne and Ang (1998) in their Singapore study and Coyle-Shapiro and Kessler (2000) in their UK local government study found that temporary workers displayed lower levels of commitment to the organization. Guest *et al.* (2000) found no direct association between type of employment contract and organizational commitment. However, when other individual and organizational background factors were taken into account, those on the various kinds of flexible employment contract tended to show lower commitment, significantly in the case of agency workers and marginally so in the case of fixed-term contracts workers. In contrast, a positive state of the psychological contract was strongly associated with significantly higher levels of organizational commitment. Van Dyne and Ang cited two further studies. One by Porter (1995) in the US found no difference between permanent and temporary nursing staff in levels of commitment and self-reported amount of work, quality of communication and quality of care. Tansky *et al.* (1995) found no difference in affective commitment between permanent and temporary nursing and hospital workers.

In summary, the limited evidence indicates that workers on flexible employment contracts show either the same or slightly lower commitment to the organization where they work. It seems possible that where differences between permanent and temporary workers are found, these might be explained, at least partly, in terms of their psychological contracts. At the same time, it should be noted that organizational commitment is an outcome

primarily of interest to organizations rather than individuals and the issue of organizational commitment might have rather different salience for permanent and temporary workers. We should also note that the studies to date are based on various types of flexible contract worker, different measures of organizational commitment and a variety of control variables in the analyses. Nevertheless, the finding in some studies showing little or no difference between permanent and temporary workers is contrary to expectation, and the issue merits further exploration.

**Work Performance and Organizational Citizenship Behaviour**

Although not strictly relevant to employee-centred outcomes, there has been some interest in the relationship between flexible employment contracts and both work performance and organizational citizenship behaviour. With respect to work performance, Ang and Slaughter (2001), based on a small Singapore sample of information systems workers, report that supervisors rate the work performance of temporary workers lower than that of permanent employees. They also report a very high correlation between ratings of performance and measures of obedience and trustworthiness, implying the need for a degree of caution in interpreting the findings. Ellingson *et al.* (1998) compared the performance of temporary workers who were temporary by choice or of necessity, based on ratings by their supervisors in client organizations, but found no differences in their performance.

Van Dyne and Ang (1998), as cited earlier, found that workers on flexible employment contracts engaged in fewer organizational citizenship behaviours. However, this was moderated by attitudes; flexible contract workers, but not permanent workers, who reported a more extensive psychological contract and higher commitment also engaged in more citizenship behaviours. This again confirms the importance of going beyond the distinction between contingent and permanent workers to

incorporate a measure of the psychological contract and of attitudes if we are fully to explain the relationship between employment contracts and behaviour. This was confirmed by Coyle-Shapiro and Kessler (2002), cited earlier, who also found that temporary workers engaged in fewer citizenship behaviours. However, they were more likely to increase their citizenship behaviours, compared with permanent employees, if they reported higher levels of organizational support or a larger number of organizational inducements. They suggest this reflects a more explicit exchange relationship among contract compared with permanent employees.

Guest *et al.* (2003) distinguished forms of organizational citizenship. For volunteering behaviour, which perhaps provides the strongest test, they found a clear negative relationship between agency work and volunteering behaviour. There was also a negative link between temporary contracts and volunteering, but this disappeared when other individual and organizational factors were incorporated. There was no association between the measure of the state of the psychological contract and volunteering behaviour.

In contrast to other studies, Kidder (1995), cited by Van Dyne and Ang (1998), found no difference in the self-reported extra-role behaviour of permanent and contingent nurses.

In summary, there is some suggestion in the evidence that flexible contract workers engage in less organizational citizenship or pro-social behaviour. However, this is moderated by the psychological contract, and the findings depend partly on what other background factors are taken into account. To date, however, there have been few studies and no clear pattern has yet emerged.

### **Job Satisfaction, Health and Well-being**

Surprisingly little research looks directly at job satisfaction among workers on different kinds of employment contract compared with permanent employees. However, Kaiser (2002) used data from the European Household Panel

Survey for 1994–1997 to explore this issue across European countries. Looking at the whole European sample, he finds that those on permanent contracts report higher overall job satisfaction, and this holds after a number of control variables are included. However, there are some quite large variations between countries. For example, in Belgium and Finland the average level of satisfaction among temporary workers is slightly higher than that of permanent employees. A number of studies have compared the satisfaction of temporary workers who are or are not on their contract of choice (Ellingson *et al.* 1998; Feldman *et al.* 1995; Marler *et al.* 2002). All show that those on contract of choice are more satisfied, confirming the importance of this variable.

Using a single item global measure of job satisfaction to compare those on different kinds of employment contract, Guest *et al.* (2003) found that fixed-term contract but not temporary or agency workers were significantly more satisfied than permanent employees. The association was strengthened when other background factors were taken into account, but disappeared when the state of the psychological contract was incorporated into the analysis. Indeed, the state of the psychological contract explained a very large amount of the variance in job satisfaction. Guest and Conway (2002), again using a single measure, report similar findings, namely that any association between type of contract and job satisfaction is fully mediated by the state of the psychological contract.

In a comparison of temporary and permanent female office workers in Israel, Krausz *et al.* (1995) found that those who had chosen temporary work reported higher levels of overall satisfaction and intrinsic satisfaction than permanent workers and involuntary temporary workers. Permanent workers reported higher levels of extrinsic satisfaction and satisfaction with influence. Contrary to expectations, they found no differences in levels of involvement and stress, which were generally quite low for both groups.



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Turning to aspects of health and well-being, Aronsson and Goransson (1999) related contract and occupation of choice among Swedish workers to a number of outcomes concerned with health and well-being. They appear to show that being on the contract or in the occupation of choice is more important than the permanent–temporary dimension. For example, those who reported the highest incidence of headaches and feelings of fatigue and slight depression were those in permanent employment but not in their occupation of choice. The feeling of being trapped or, as they describe it, ‘locked in’, appears to be more damaging than the sense of employment insecurity. This same group of workers also reported the lowest levels of support and opportunity to learn something new and develop at work. In general, those on permanent contracts in their occupation of choice reported the most positive outcomes, but they were often closely followed by those in temporary work in their occupation of choice. While this research needs to be replicated elsewhere and offers a strong case for including the kind of cognitive evaluation contained within the psychological contract, it also raises the importance of considering occupation of choice in any assessment of the relationship between employment contracts and aspects of well-being.

Isaksson and Bellagh (2002) also explored the impact of contract of choice on measures of distress symptoms and somatic complaints among female temporary employees in Sweden. They found that being on contract of choice was associated with fewer symptoms and complaints. However, when other factors were added in to the regression analysis, contract of choice ceased to be significant, and work load became the most significant factor associated with negative outcomes. These findings were confirmed in a study by Parker *et al.* (2002), who compared a sample of permanent employees with two groups, of which one had changed from temporary to permanent and the other was temporary, on a measure of strain derived from Warr’s (1990) conceptualization. There was a negative correlation

between temporary employment and job strain, mainly because job strain was associated with perceived job characteristics such as work overload, which were more likely to be reported by permanent employees.

In their study of workers in a Swedish hospital, Sverke *et al.* (2000) found that, despite somewhat higher levels of role ambiguity, contingent contract workers reported fewer mild somatic complaints than both full-time and part-time permanent workers. There were no differences in mental health as reflected in GHQ scores. However, within the sample of contingent workers, women reported a higher number of somatic complaints than men. We need to view the association between contract type and outcomes in this study with some caution, since the average length of the temporary contract was six years and the contingent contract population contained the highest proportion of physicians and of younger workers.

Bardasi and Francesconi (2000) used several waves of the British Household Survey Panel during the 1990s, with a sample of over 3500, to explore the relationship between contingent work and mental health as measured by the GHQ. They found no impact among women and no negative consequences of either starting or being on a fixed-term contract among men. Indeed, for men, a longer period on a fixed-term contract seemed to be associated with improved mental health. However, there was some evidence that those in seasonal or casual jobs had poorer mental health. There were some complex variations when sub-groups based on age and education were analysed, which served to indicate that it was those under 30 whose mental health was most likely to be affected by a change in employment status.

Quinlan *et al.* (2000), in an extensive review of flexible employment contracts, including sub-contracting and self-employment, report a range of studies, several of which were conducted in France, showing a link between temporary employment and both accidents and poorer work-related health. The explanations

for these findings include lack of training, lack of supervision and lack of access to information and materials. In a further analysis of the Swedish national sample, Aronsson (1999) found, perhaps not surprisingly, that those on temporary contracts were less well informed than were permanent employees about health and safety and about voice at work. He also found major differences according to type of flexible employment contract and according to a range of individual characteristics such as age and gender, with young women being the least well informed. Therefore, while the weight of the evidence is quite compelling, it is sometimes difficult to identify how much of the cause of poorer outcomes can be attributed to the type of contract and how much to the fact that temporary workers are often newer workers and that accidents may be due to less experience. Nevertheless, the review does indicate that it might be wise to include some measure of accidents as an outcome in any study of the relationship between temporary employment, the psychological contract and worker well-being.

Guest and Conway (2002) explored the impact of type of employment contract and the state of the psychological contract on a measure of life satisfaction, including health. The results, replicated over several years, consistently show a significant association between the state of the psychological contract and life satisfaction, including subjective assessments of health and work–life balance. It is also associated with reports of less pressure at work and with a tendency to report a range of emotional experiences both at home and at work rather than predominantly in one or the other. Longitudinal analysis indicates that the relationship between the state of the psychological contract and life satisfaction is almost certainly causal. The survey of UK workers conducted by Guest and Conway in 2000, which contained a predominance of public sector employees, reported a negative association between temporary contracts and life satisfaction, including satisfaction with work–life balance. In the same survey, both

temporary and fixed-term contracts were associated with a greater stated intention to quit the organization.

In summary, the limited available data show no evidence that being on a flexible employment contract is consistently associated with poorer mental health. There is some indication that flexible employment contracts may be associated with lower life satisfaction. However, this is largely untrodden research ground, highlighting the need for further research.

### Summary and Conclusions

This paper has reviewed evidence about the characteristics and consequences of flexible employment contracts within a framework that gives some primacy to the role of the psychological contract. In particular, it has explored the conventional assumption that those employed on flexible employment contracts are at a significant disadvantage.

One assumption that has been challenged concerns the adoption of flexible employment contracts. The evidence we have presented indicates only slow growth in the proportion of workers on such contracts and shows that they continue to affect only a small proportion of the workforce. In any analysis, it is important to distinguish between types of flexible contract and, in this context, one of the important developments has been the growth in the proportion of those on flexible contracts who can be described as knowledge or high-skill workers. Furthermore, a significant minority, perhaps about a third of those on flexible contracts are on their contract of choice, and the research evidence shows that this has an important bearing on attitudes and behaviour.

Only a limited number of studies have explored the relationship between employment contracts and the psychological contract. However, the available evidence suggests that the state of the psychological contract of workers on flexible employment contracts is at least as positive and sometimes more positive than that reported by workers on permanent contracts. One interpretation of this is



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that the content of the psychological contract of temporary workers is narrower and more transactional and easier for both sides to monitor than more relational contracts; and that many of those on temporary contracts prefer this. It also appears that the state of the psychological contract, which can be considered to be a form of cognitive evaluation of management policy and practice, is more strongly associated with attitudes and behaviour than is the employment contract. Bearing this in mind, there is some indication but no consistent evidence that workers on temporary contracts are less committed or less satisfied than those on permanent contracts. Even the evidence about job insecurity is inconsistent; it seems possible that knowledge workers on flexible contracts as a matter of choice may be less concerned about job security than the more marginalized and lower skill temporary workers. The evidence on well-being also reveals no consistent differences.

Despite the lack of consistent differences, it would be unwise to assume that there are no differences in the attitudes and behaviour of flexible and permanent contract workers. Much depends on the sample under investigation and both the organizational context and the wider context in which they are working. All studies show that contract of choice has an important influence on outcomes and a majority of those on flexible employment contracts are not on their contract of choice. There is also some suggestion that those on temporary contracts are less well informed about health and safety and may therefore be more at risk. The importance of perceptions of employment alternatives, reported in some research, highlights the need to take account of variations in economic and employment context.

One of the interesting findings to emerge from a number of the studies is that contract status appears to interact with a number of policy issues. This was perhaps shown most powerfully in the study by Coyle-Shapiro and Kessler (2002). The implication is that those on flexible employment contracts are more responsive than are permanent employees to

higher levels of organizational support or higher numbers of inducements. In a European context where legislation has been introduced in the face of some opposition from industry to ensure that those on fixed-term contracts are generally treated no less favourably than those on permanent contracts, this evidence suggests that it is very much in the interests of organizations to ensure that workers on flexible employment contracts are well treated. Where organizations do so, it appears that they will get a very positive response.

The limited evidence shows that the experience of working on a flexible employment contract is not well understood and that more research is needed. Research should recognize that there are various types of flexible employment contract and of workers on flexible contracts. The issue of contract of choice also needs to be incorporated into any analysis. One of the encouraging features of the research to date is that it is very international, with studies reported in Europe, North America, Southeast Asia and Australia. Research needs to be based on a model that takes into account national, organizational and individual contingencies. It can usefully be built around a model that links the employment contract to the psychological contract while taking account of employment context. Indeed, as Johns (2001) and others have argued, there is a strong case for building contextual issues more explicitly into studies of employee perceptions and behaviour. We might expect the psychological contract to mediate the relationship between the employment contract and outcomes such as satisfaction and well-being as well as outcomes of more interest to organizations, such as citizenship behaviour. In addition, research should consider the consequences of flexible employment contracts for provision of information, particularly information relating to safety and any consequences for safety behaviour and accidents. One of the assumptions has been that various types of flexible employment are introduced primarily to serve the interests of management in its pursuit of flexibility. The indication that,

for some knowledge workers, a flexible employment contract can be the contract of choice adds further emphasis to the need to understand the causes and consequences of such contracts.

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### Notes

- 1 This is a subject beset by definitional problems. In this paper, the core term used will be 'flexible employment contracts', but from time to time it will be necessary to adopt the terms used by other researchers including 'contingent', 'atypical' and 'temporary' employment. Indeed, in some cases the inconsistent use of 'temporary' and 'fixed-term' makes it difficult to be clear about the precise population under investigation. The problem is exacerbated in some circumstances where those working for temporary employment agencies have permanent contracts with the agencies.
- 2 Evidence from the Economic Policy Institute, Washington, as reported in *The Financial Times*, 4 September 2000.

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