Psychological Contracts between Federal Agencies and Employees:

A Structural Equation Model

by

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This is a confirmatory factor analysis of the 2016 Federal Employee Viewpoint Survey (FEVS), a survey designed to assess employees’ perceptions of their engagement and influence on agency innovations. This structural equation model (SEM) is expected to reveal statistically significant relationships between factors central to Guest and Conway’s (2002) Psychological Contract Theory—promises, fairness, and trust—and human resource management practices, employee engagement, involvement climate, employee relations, commitment, job satisfaction, and motivation. These results would further define the public administration profession and ethical administration, and help the Office of Personnel Management achieve strategic goals related to their budget and employee performance.
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Theoretical Framework

Gaps exist in the research literature concerning psychological contracts and the federal government employees. The term psychological contract has been widely defined by researchers and an agreed upon definition does not exist (Anderson & Schalk, 1998; Conway & Briner, 2005; Roehling, 1997). The reason for this anomaly may be due to the term being a creation of researchers and thus, the term has been defined in each researcher’s own context. Argyris (1960) and Levinson et al. (1963) are credited with the first use of the term, however, both researchers used the term to describe different concepts, as their research was unrelated, and they were unaware of each other’s activities (Anderson & Schalk, 1998; Conway & Briner, 2005).

The term has continued to be redefined as researchers have applied the term to explain employment relationships and generally refers to unwritten expectations that influence the ways that employees and managers operate (Argyris, 1960; Levinson, et al., 1963; Rousseau, 1989).

By defining the psychological contract more explicitly, researchers began to focus on the subjective and individualized nature of the employee’s perception of the organization, promises, and obligations of the employer (Anderson & Schalk, 1998; Parks & Kidder, 1994).

Content of the Psychological Contract

Consistent in the approach to view the psychological contract solely from the employee perspective, Rousseau (1990, p. 395) identified seven items that represented what the employee expected from the employer: “advancement, high pay, performance-based pay, training, job security, development, and support” (p. 395). Herriot, Manning, and Kidd (1997) expanded the
body of knowledge of the psychological contract research and believed that an exploration of the perceived obligations of each party would provide an explanatory framework for further research. The research revealed that employees and employers tended to agree on the content of the contract and the content reflected “traditional work values” (Herriot, et al., 1997, p. 160), but the parties to the contract do not agree on the salience that each party attaches to the item. Employees believed that employee obligations included: training, fairness, needs (attending to personal or family needs), consult (consulting and communication with manager on items pertaining to the employee), discretion, humanity, recognition, environment, justice, pay, benefits, and security (Herriot, et al., 1997, pp. 156-157). Employers believe that employee obligations included: hours (working hours assigned to work), work (quantity and productivity), honesty, loyalty, property (respecting employer property), self-presentation (dress and behavior), and flexibility (Herriot, et al., 1997, pp. 157-158).

An examination of the psychological contract construct provides additional information for government leaders by adding to their knowledge of human resource management practices and the issues that contribute to a highly motivated workforce. Goleman (2004) introduced the concept of emotional intelligence as remarked that emotional intelligence was the “sine qua non of leadership” (p. 82). Goleman described five key indicators of emotional intelligence that include self-awareness, self-regulation, motivation, empathy, and social skill. Empathy and social skill are hallmarks of a leader’s ability to manage relationships with others. Leaders who have highly developed empathy and social skills can recognize the subtle existence and state of the psychological contract.

Research in psychological contracts has implications for human resource professionals, managers, and leaders. Human resource professionals need to be aware of how promises or
commitments made during the hiring process are perceived as obligations on the part of the employer. Accurate and realistic information of the job and the expectations need to be conveyed at the time of the interview. The same information needs to be communicated at least annually during the formal performance appraisal process as Harrington and Lee (2015) noted that fulfillment of the psychological contract has a relationship to employee perception of the fairness of their performance appraisal process. An understanding of the nature of psychological contracts can provide leaders with an insight into how to manage organizational change so that organizational change does not cause breach of the psychological contract. Connell and Waring (2002) found evidence that successive change initiatives resulted in perceived violations of the psychological contract. Stakeholders (employees, policy makers/legislators, managers/leaders, agency customers) will benefit from the study as government agencies will operate more efficiently.

Albrecht (2005) noted the value of the use of climate surveys, as a means of assessing employee disposition to change. For example, Fernandez, Resh, Moldogaziev, and Oberfield (2015) suggested an increased analysis of the Federal Employee Viewpoint Survey (FEVS) to improve the value of the data. If data reveals the existence of a breach of psychological contract among government employees, the results could help government leaders to address the issues of a broken contract to improve attitudes and employee satisfaction with federal government service. The findings could also provide a basis for revising managerial training programs to emphasize how to manage employees and to keep the psychological contract in balance. In addition, findings may aid government leaders to retain and attract a high-quality workforce and may reduce employee grievances.

The changing employment landscape and economic turbulence is changing the contract between employees and employers and has implications for future study. DelCampo (2007)
suggested that an employee’s perception of a breach of the psychological contract may also be a predictor of discrimination in the workplace. Rousseau and Tijoriwala (1998) commented on the need to review how the psychological contract develops differently depending on cross-cultural differences. Rousseau and Schalk (2000) advocated further research with respect to contracts between members of different societies because “we know little about how cultural differences influence each party’s interpretation of the psychological contract and how each assesses the degree to which contract terms are fulfilled or breached” (p. 300).

Psychological Contract Construct and Recent Research

*Exchange Theory.*

Barnard (1968) proposed a theory of equilibrium, which developed the concept that employees will contribute to the organization based on inducements received from the organization. The inducements may be in the form of pay or other benefits. An employee will continue to participate in the exchange, if the organization continues to offer inducements that are equal to or greater than the perceived value of the employee’s contribution. March and Simon (1958) elaborated on Barnard’s theory to develop a contribution-inducement model that detailed the exchange relationship between the organization and employee. March and Simon defined the relationship as contractual; “In joining the organizations, he (the employee) accepts an authority relation, i.e., he agrees that within some limited (defined both explicitly and implicitly by the terms of the employment contract) he will accept as the premise of his behaviors orders and instructions supplied by the organizations” (March & Simon, p. 90).

Menninger (1958) introduced a clinical perspective about psychological contracts and elaborated on the types of contributions to the contractual relationship. Menninger noted that exchanges can be based on intangible, as well as tangible (goods and service) services. According to Roehling (1997), Menninger highlighted the reciprocal nature of the exchange and
the need for mutual satisfaction of the needs of both parties to the relationship. Menninger advanced the concept of the contractual relationship by expanding on the reciprocal nature of the relationship and detailing the need for mutual satisfaction for all parties (Roehling, 1997).

Menninger recognized that the exchange process involved both conscious/unconscious processes and tangible/intangible content (Conway & Briner, 2005).

The contractual relationship was further defined by Argyris (1960), who was the first to use the term *psychological work contract* and apply the concept to a workplace setting (Conway & Briner, 2005). Argyris noted a relationship between employees and their foremen and that an informal culture had developed in the organization. In exchange for productivity, the foremen would “guarantee and respect the norms of the employee informal culture (i.e., let the employees alone, make certain they make adequate wages, and have secure jobs)” (Argyris, 1960, p. 96).

Argyris (1960) asserted that if both parties preferred stability in the relationship, both parties would overlook minor infractions in order to preserve the status of the relationship. Stability was possible only if production remained high and no organizational changes were necessary. The form of the agreement was based on an understanding of the requirements by both supervisors and employees. Argyris predicted that the introduction of a new budget system by management would cause a violation of the contract and predicted that supervisors would resist the new system in an attempt to preserve the psychological work contract relationship.

Levinson et al. (1962) conducted a study of 874 employees at a utility company and noted similarities to Menninger’s observations of the intangible aspects of the psychological contract (Roehling, 1997). Levinson et al.’s work was the first in depth analysis of psychological contracts and the work is a precursor for contemporary psychological contract theories. During the employee interviews, Levinson et al. noted unconscious and conscious expectations analogous to Menninger’s intangible aspects of the psychological contract. Levinson et al. stated
that relationships were based on needs and “if the organization meets employees’ needs, the employee feels obliged to reciprocate by trying to fulfill the organization’s needs” (Conway & Briner, 2005, p. 11). The parties will continue to reciprocate, if the needs of both parties are being met.

The concept of reciprocation and fairness has roots in Herzberg’s hygiene theory (Herzberg, Mausner, & Synderman, 1993). If Party A fails to reciprocate to satisfy the needs of Party B, Party B will believe that the situation is unfair and be less motivated. According to Herzberg et al., “when conditions of unhappiness were reported, they were not associated with the job itself but with conditions that surround the doing of the job” (p. 113).

Levinson et al. (1963) also contributed to the development of the psychological contract construct by recognizing the role of reciprocation in the contract process. Levinson et al. defined reciprocation as “the continuous process of fulfilling the psychological contract between employee and organization” (1963, p. 131). According to Conway and Briner (2005), Levinson et al.’s explanation of the continuous nature of reciprocation may offer an insight into employee behavior when the psychological contract is operating normally that is not breached. [Social Exchange Theory

Social contract theory (Blau, 1964) has been used as an explanatory model for a conceptual framework for the psychological contract (Robinson, Kraatz, & Rousseau, 1994; Roehling, 1997; Rousseau, 1989; Rousseau & McLean Parks, 1993). Blau defined a social exchange as “the voluntary actions of individual that are motivated by the returns that they are expected to bring and typically do bring from others” (Blau, 1964, p. 91). The voluntary actions set up a social norm that obliges the other party in the relationship to reciprocate in kind. Several studies provide support for social exchange as an element of the psychological contract (Robinson, et al., 1994) and predict how a failure to fulfill obligations by one party will result in
a decreased commitment by the other party.

_Relational Contract Theory_

According to Roehling (2004), employment relationships can be viewed within the framework of contract law. Classical contract law defines a contract as “a bi-lateral agreement that consists of a bargained-for exchange of promises” (Roehling, 2004, p. 76). The postmodern perspective of relational contract theory has been widely adopted by organizational behaviorists, as the theory offers a better explanation of the nature of the exchange process. MacNeil (1985) is credited as being the architect of postmodern relational contract theory and the transactional-relational exchange continuum. MacNeil’s relational contract theory focused on the transaction (exchange) and the social nature (context) of the parties to the contract and provides a conceptual framework for examining current psychological contract literature.

_Employment Relationship Theory_

Schein (1980) viewed the psychological contract as a foundation for employment relationships. Schein explored the dimensions of behavioral expectations, covering both the employee and the employer. These expectations may be formal covering such aspects, such as pay and hours of work, or informal arrangements that pertain to obligations and norms. Schein emphasized that the contract, not only provide for economic and social needs, such as pay and benefits, but also satisfy an individual’s need for self-actualization by providing opportunities for self-development.

Schein’s (1980) framework of the psychological contract was similar to Levinson et al.’s. Schein’s contribution was unique in that he was the first researcher to discuss the notion of contract violations (Coyle-Shapiro, Shore, Taylor, & Tetrick, 2004). Schein argued a match was needed between a party’s expectations and the corresponding party’s contributions. Lack of congruence would give rise to negative attitudes impacting job performance and job satisfaction.
Schein, 1980).

Many researchers (Morrison & Robinson, 1997; Robinson, 1996; Robinson, et al., 1994) have adopted Rousseau’s (1989, 1990, 2001) conceptualization of the psychological contract as “individual beliefs shaped by the organization, regarding the terms of an exchange agreement between individuals and their organization” (Rousseau, 1995, p. 9). However, Rousseau has been criticized for the focus on the one-sided (employee) nature of the relationship (Guest, 1998a; Guest & Conway, 2002; Herriot & Pemberton, 1997). Rousseau’s one-sided view of the contract conflicts with Schein’s (1980) warning that the full nature of the psychodynamics of the contract will not be totally understood if the perspective of both parties is not considered.

Kotter (1973) examined the role of congruence in a study of Sloan graduates. He asserted that employees whose psychological contract has a greater number of matches of expectations to fulfillment were more satisfied and productive than those employees whose contract had fewer matches. Kotter stated that mismatches start to occur during the orientation or early stages of employment but are either not recognized or ignored by the manager, employee, or both parties. Neither party recognizes the symptoms of the mismatch until the incongruence reaches the state, where behaviors indicative of frustration or disappointment are displayed. Incongruence is more likely to be perceived by the employee than the manager (Lester, Turnley, Bloodgood, & Bolino, 2002).

Leader-Member Exchange Theory (LMX)

Largely, psychological contract research has focused on the employee side of the relationship (Rousseau, 1989, 1998) and that the contract represents the employee’s perceptions of the relationship. This view has been criticized (Guest, 1998a, 1998b; Liden, Bauer, & Erdogan, 2004) for not recognizing the employer side of the relationship and the complex nature of the organization. Psychological contract researchers recognize the role of the immediate
supervisor and leaders to build and maintain trust (Aryee, Budhwar, & Chen, 2002; Coyle-Shapiro, 2002; Tekleab & Taylor, 2003), which provides support for LMX theory as a conceptual framework. Liden et al. (2004) described the LMX exchange as one of differentiation, where certain employees received more organizational support than others. Due to the reciprocal nature of the exchange, employees who receive less organizational support will be less committed to the organization and engage in fewer beneficial organizational behaviors than those receiving high LMX support. The strong linkage between the employee and the manager provide the support for identifying the manager as agent for the organization (Dabos & Rousseau, 2004; Granrose & Baccili, 2005; Tekleab & Taylor, 2003).

Characteristics of the Psychological Contract

Beliefs. Beliefs represent the perception of the terms or nature of the exchange between the employer and employee. According to Conway and Briner (2005), psychological contract beliefs are characterized by expectations, promises, and obligations, but the distinction between these terms is often blurred. The Oxford English Dictionary defined an expectation as “the action of …forecasting something to happen or anticipating something to be received; anticipation; a preconceived idea or opinion with regard to what will take place” ("Promises,").

Levinson et al. (1963) focused on “a series of mutual expectations of which the parties to the relationship may not themselves be dimly aware but nonetheless govern their relationship to each other” (Levinson, et al., 1963, p. 21). Rousseau and McLean Parks (1993) addressed the various forms of expectations ranging an expectation of a future event to normative beliefs. Rousseau (1995) defined the psychological contract as “individual beliefs shaped by the organization, regarding the terms of an exchange agreement between individuals and their organization” (Rousseau, 1995, p. 9).

Robinson and Rousseau (1994) made a distinction between expectations and
psychological contracts. According to Robinson and Rousseau, “The psychological contract, unlike expectations, entails a belief in what the employer is obliged to provided, based on perceived promises of reciprocal exchange” (Robinson & Rousseau, 1994, p. 246). Rousseau (1989) focused on the promissory nature of the contract by characterizing the contract as:

(a) an individual’s belief(s) in reciprocal obligations between that individual and another party, (b) where one party has paid for or offered a consideration in exchange for a promise that the other party will reciprocate (i.e., fulfill its promise), (c) where both the promise and the consideration are highly subjective (i.e., existing in the eye of the beholder, the individual), and (d) where nonetheless, the individual holding a belief in a psychological contract attaches to this belief assumptions regarding good faith, fair dealing, and trust, treating this contract as part of the larger fabric of the relationship between the parties. (Rousseau, 1989, p. 128)

Promises are defined by the *Oxford English Dictionary* as “a declaration or assurance made to another person (usually with respect to the future), stating a commitment to give, do or refrain from doing a specified thing or act…” (“Promises,”). Rousseau and McLean Parks (1989) asserted that all promises contain expectations but not all expectations are promissory. A promise, by definition, contains a contractual element (commitment) and individuals are more psychologically-bound to a promise due to the inherent contractual nature (Conway & Briner, 2005). In contrast, an expectation is mere anticipation of an event and the non-delivery of an expectation does not evoke a strong emotional response.

Implicit or explicit promises create an obligation (Conway & Briner, 2005; Rousseau & Tijoriwala, 1998). This view is consistent with the *Oxford English Dictionary* (1989) definition of an obligation as a “…constraining power of a law, duty, contract, or (more generally) custom,
habit….” Morrison and Robinson (1997) described that a psychological contract will arise only if an individual believes that a promise has been conveyed, thereby creating an obligation.

A Comparison of Measures

The prevailing view of the psychological contract is that the contract is based on promise-based obligations and not on expectations (Conway & Briner, 2005; Rousseau & McLean Parks, 1993). Studies have shown that research based on promised-based obligations yields greater predictability and stronger relationship to outcome variables (Robinson, 1996; Robinson, et al., 1994; Rousseau & Tijoriwala, 1998). However, Conway and Briner suggested that future empirical research may show that obligations and expectations hold equal weight.

The Nature of the Exchange

According to Conway and Briner (2005), promises exchanged in a psychological contract may be either explicit or implicit. Explicit promises may be verbal or written and convey a promise on behalf of the agent of the organization to reciprocate when the employee’s side of the bargain is fulfilled. Robinson and Rousseau (1994) described explicit promises as arising from “…interpretations of past exchange, vicarious learning (e.g. witnessing other employees’ experiences) as well as through various factors that each party may take for granted” (Robinson & Rousseau, 1994, p. 246).

Researchers have debated the degree of explicit or implicitness required before a promise is considered a part of psychological contract. The nature of a promise can be viewed as a continuum. Explicit and implicit promises represent the extreme ends of the spectrum.

A set of researchers (Guest, 1998a; Levinson, et al., 1963; Meckler, Drake, & Levinson, 2003; Schein, 1980) believe that the psychological contract can only be composed of implicit promises. This view is described by Schein as the belief that expectations “are not written into any formal agreement between employer and the organization, yet they operate powerfully as
determinants of behavior” (p. 11). For these researchers, explicit promises cannot be considered as part of a psychological contract. For other researchers, promises, whether implicit or explicit, are considered psychological (MacNeil, 1985; Rousseau, 1995), as “all agreements between people are subject to interpretation” (Rousseau, 1998, p. 666).

**Perceived Agreement**

The legal definition of a contract specifies that a contract is “an agreement with specific terms between two or more persons or entities in which there is a promise to do something in return for a valuable benefit known as consideration” (Hill & Hill, 2008). However, Rousseau (1990) argued that “two parties to a relationship, such as an employee and employer, may each hold different beliefs regarding the existence and terms of a psychological contract… Mutuality is not a requisite condition” (Rousseau, 1990, p. 391).

Arnold (1996) suggested that the meaning of mutuality is unclear and that mutuality may be viewed in strong and weak forms. Strong mutuality “covers both the existence and terms of the psychological contract” (Arnold, p. 512), whereas the weaker form “would simply assert that both sides perceive the existence of a contract, even if they may not agree on the terms” (Arnold, 1996, p. 512). Robinson and Rousseau (1994, p. 246, original emphasis) appeared to revert to the weaker form of mutuality by arguing that “Each party believes that both parties have made promises and that both parties have accepted the same contract terms. However, this does not necessarily mean that both parties share a common understanding of all contract terms” (p. 246, original emphasis).

Dabos and Rousseau (2004) explored the concept of mutuality in their research of 80 employee-employer dyads in 16 university-based research centers by focusing on the positive outcomes of psychological contract fulfillment. Dabos and Rousseau hypothesized that “some degree of actual or objective agreement is required to meet the parties’ goals regarding the
exchange” (Dabos & Rousseau, 2004, p. 55) and speculated that when mutuality and reciprocity were present, the outcome would be positive. The study demonstrated that when employees and employers possess a shared understanding of the psychological contract, the results are beneficial to both parties.

Norm of Reciprocity

According to Blau (1964), the nature of the exchange requires that parties to the contract reciprocate in kind so that the exchange is balanced. The exchange begins with the obligation that one feels upon receipt of an item of value. If upon receipt of the item, the individual feels obligated to reciprocate, the die is cast. As the pattern of behavior is repeated and the behavior becomes routine and established, a psychological contract is formed (Conway & Briner, 2005).

Coyle-Shapiro and Kessler (2000), asserted that many researchers largely ignore the role of reciprocity and mutuality, focusing exclusively on the employee perspective and ignoring the employer side of the relationship (Morrison & Robinson, 1997; Robinson & Rousseau, 1994; Shore & Tetrick, 1994). Guest (1998a) argued that ignoring the employer side of the relationship was tantamount to ignoring the reciprocal nature of the psychological contract. Coyle-Shapiro and Kessler noted the lack of empirical research on the two-sided nature of the contract and conducted two surveys to measure the mutuality of obligations. Their study confirmed that a majority of the employees surveyed experienced contract breach and that managers confirmed that the organization is not fulfilling its side of the contract (Coyle-Shapiro & Kessler, 2000).

Typology of Psychological Contracts

MacNeil (1985) was the first scholar to identify a means of describing a range of contractual forms by using a continuum. MacNeil conceptualized that contracts range along a continuum from transactional (short-term arrangements that are monetary or economic based) to relational (open-ended, socio-emotional, and economic based) (Rousseau, 1990, 2002). Rousseau
hypothesized that patterns of recruits’ perceptions of obligations will be interrelated and that the pattern would be consistent with transactional/relational contracts. The outcome of the study supported the hypothesis and revealed that pay and career development was consistent with a transactional contract, and job security was consistent with a relational contract. Rousseau (Anderson & Schalk, 1998; 1993) argued that both transactional and relational contracts contain five dimensions: focus, time frame, stability, scope, and tangibility. Later, Rousseau included two additional dimensions of inclusion and formalization.

Rousseau’s (2004) later research expanded on the contract form by suggesting that contemporary contracts represent a blending of transactional and relational contracts, especially in organizations, where teams are common. Employment relationships are being shaped by emergent organizational designs, where teams are an integral part of the organizational structure. According to Lentz (1996), hybrid organizations “make every effort to shed bureaucracy and replace it with speed and agility with customers” (Lentz, 1996, p. 456).

Changing employment relationships also has resulted in boundaryless careers, where employees frequently change jobs or occupations (Granrose & Baccili, 2005), changing the contract landscape. According to Rousseau (2004), “Time frame and performance requirements have emerged as important contemporary contract features” (Rousseau, 2004, p. 97). The result is an expansion of contract typology to include transitional (a contract reflecting the absence of guarantees) and a balanced contract (an open-ended relationship that includes performance standards) (Rousseau, 2004).

A content analysis of practitioner literature conducted by Roehling, Cavanaugh, Moynihan, and Boswell (2000), pertaining to the content of the psychological contract, revealed similar characteristic among scholarly journals and trade magazines. Roehling et al. pointed out areas, where the content of the psychological contract is changing with respect to “loyalty,
employability, job security, trust, help with career development, and shared commitment to business objectives” (Roehling, et al., 2000, p. 306). Grimmer and Oddy (2007) explored the nature of psychological contracts in Australia and presented evidence that contract fulfillment was more closely aligned with relational than transactional items. The changing nature of the employment landscape highlights a need for employers to examine the state of their employment relationships closely.

Lester, Claire, and Kickul (2001) approached the subject by examining the inducements that employers offered to employers, as a means of retaining and attracting skilled employees. Employees were asked to rank a series of items and to indicate if the employer had fulfilled its promises. The results demonstrated the multidimensional properties of the contract (Robinson, 1996; Rousseau, 1995) as the contract items pertained to both intrinsic (work environment and job) and extrinsic (pay and benefits) (Lester, et al., 2001). Eight of the 10 items rated the highest by employees involved intrinsic items such as “open and honest communication, fair treatment, and challenging and interesting work” (Lester, et al., 2001, p. 14).

Multiple Contract Relationships

Guest and Conway (1998) provided that the basic elements making up the framework of the psychological contract are trust, fairness, and researchers are beginning the explore whether the psychological contract differs depending on an employee’s position within an organization. Atkinson and Cuthbert (2006) determined that managers are more likely to believe that the organization will honor its commitments and treat them fairly than non-managers and supervisors. The study confirmed that relational issues such, as training, job security, and individual development are more important than transactional issues such as advancement and pay. Leaders who understand the difference in perceptions between groups of employees are able to develop managerial practices that meet the needs of all groups within an organization.
Contract Violation and Breach

Most empirical research on the psychological contract has focused on contract violation, breach, and the resulting effects of the breach. Robinson and Rousseau (1994, p. 247) stated that a violation of the psychological contract occurs “when one party in a relationship perceives another to have failed to fulfill promised obligation(s)” (p. 247). Several empirical studies have relied upon this definition to explain the strong emotional state experienced when promises are broken (Robinson & Morrison, 1995; Robinson & Rousseau, 1994; Rousseau & McLean Parks, 1993).

Breach, according to Conway and Briner (2005, p. 64) is “subjective and based on a perceived rather than an actual agreement, and can occur in relation to any explicit or implicit promise” (p. 64). Morrison and Robinson (1997) are credited with making an important distinction between contract breach and contract violation, as prior researchers tended to use the two terms interchangeably. Morrison and Robinson argued that “feelings of violation are distinct from the cognitive evaluations that underlie them and that a complex interpretations process intercedes between the two” (p. 230). Morrison and Robinson termed the underlying cognitive assessment or realization that promises have not been fulfilled as perceived breach and limited the use of the term violation for “the emotional and affective state that may, under certain conditions, follow from the belief that one’s organization has failed to adequately maintain the psychological contract” (1997, p. 230).

Atkinson (2006) adopted a case study approach to further explore the issue of trust and the psychological contract by interviewing 41 employees in three firms using a critical incident technique. Atkinson used Rousseau’s categorization of relational and transactional obligations and determined that trust was a factor in all psychological contract violations, and that “a failure to fulfill perceived obligations leads to breaches of both cognitive trust and effective trust”
Changes in the Employment Relationship Leading to Breach

Beaumont and Harris (2002) speculated that the downsizing of white-collar employees in the late 1980s and early 1990s was responsible for breach of the psychological contract. The research failed to support the hypothesis that the downsizing was the cause of psychological contract breach in white-collar employees (Beaumont & Harris). Beaumont and Harris concluded that white-collar job loss in the United Kingdom was due to recession and not downsizing. Blue-collar employees in the United Kingdom experienced job loss due to downsizing and downsizing in the United States affected both blue- and white-collar employees (Beaumont & Harris).

Bellou (2007) focused on the content of the psychological contract by studying employee perceptions of organizational obligations and contributions to determine if the content changed after a merger of two organizations. The results indicated that employees perceive organizational obligations and contribution change during a merger and that the old psychological (pre-merger) contract is broken. New contracts are formed consistent with the newly formed organization. Bellou’s study suggested that the organization needs to renegotiate new psychological contracts to mirror the new state of the organization so that the relationship can be re-established.

The role of managers and multiple organizational constituents was explored in Bligh and Carsten’s (2005) study of 16 nurse managers in a post-merger hospital consolidation. The study revealed that managers have “bi-directional obligation with both the organization and their subordinates” (Bligh & Carsten, 2005, p. 495). The researchers suggested that middle managers are often unable to provide support to avoid breach of the psychological contract because the middle managers may not have sufficient information concerning the organizational change. Managers may not have access to the information or may be forbidden to communicate information that would provide emotional support for employees so that the contract could be
maintained. Furthermore, managers valued more relational (communication, empowerment) aspects of the contract than lower level employees, who value transactional elements (pay, benefits). Breach of the psychological contract is more likely to occur in situations, where different aspects of the contract are valued (Bligh & Carsten, 2005).

Nadin and Cassell’s (2007) exploration of how the psychological contract is formed in small firms offered a contrasting view of the content of the contract. Psychological contract literature (Guest & Conway, 2002; Herriot & Pemberton, 1997) has suggested contract breach can be avoided by articulating the nature of the contract as explicitly as possible. Nadin and Cassell found that small firms are limited in their ability to offer tangible inducements often associated with a psychological contract, such as promotions and training. The imprecise nature of the contract affords small firm management with needed flexibility, but may cause employee frustration due to lack of satisfaction of transactional needs (Herriot, et al., 1997).

Effects of Contract Violation and Breach

According to Conway and Briner (2002), contract breach is the most important construct in psychological contract theory. Breach has been found to be a factor in lower levels of job satisfaction, commitment, and organizational citizenship behaviors (Conway & Briner). Psychological contract breach may causes intense emotional responses in employees, such as feeling angry, sad, betrayed, dissatisfied, and hurt, which may lead to such behaviors as retaliation, malicious compliance, and an overall negative attitude (Conway & Briner, 2005). Blancero, DelCampo, and Marron (2007) studied Hispanic employees and determined that feelings of discrimination were a predicator of the perception of the fairness of the psychological contract and posited that the effect of contract violation and breach may be idiosyncratic (Rousseau, 2005).

Attitudes
Trust. Robinson and Rousseau (1994) surveyed alumni of a management school master of business administration (MBA) program to determine the employee’s perception of psychological contract violation. Over half of the students surveyed in their first job reported a violation of the psychological contract (Robinson & Rousseau, 1994). The students perceived that they were making an investment in the organization by supplying their expertise. The investment created a perception of an increased organizational obligation (Anderson & Schalk, 1998). Robinson and Rousseau determined that the violation of the psychological contract diminished an employee’s perception of trust and job satisfaction and increased an employee’s intention to leave the organization.

In a later study, Robinson (1996, p. 575) noted that “rare is the theoretical paper on psychological contracts that does not mention the word trust or not its central role in psychological contract” (p. 575); however, Robinson also stated, “There has been virtually no theoretical explication or empirical examination of trust…” (p. 575). Blau (1964) asserted that in relationships, trust is a primary factor and trust influences behavior and outcomes. Robinson determined that trust was a mediator between psychological contract breach and an employee’s willingness to make a contribution to the organization.

The research by Robinson (1996) was significant because prior studies had not empirically proven that the loss of trust was tied to an employee’s belief that the psychological contract had been breached. Furthermore, the study revealed an employee’s unmet expectation, such as a promotion or pay increase contribute to contract breach but are not the only reasons for breach. Robinson’s study revealed that employees, who begin an employment relationship trusting the employer, tended to maintain some degree of trust and were less likely to perceive immediately a violation or breach of the psychological contract.

Organizational Commitment. Maguire (2002) claimed that employee input to the
psychological contract included employee commitment, loyalty, and trust in exchange for competent management and the ability to provide input to management. Maguire studied an organization undertaking a major restructuring event and noted that after the reorganization, organizational commitment, loyalty, and trust in management was impacted negatively.

According to King (2000), white-collar workers exhibit commitment and negative OCB in subtle ways. King’s study confirmed that white-collar workers, who are insecure, may not give the appearance or act in ways that demonstrate their insecurity, but these employees are less supportive of organizational goals, are less loyal to the organization, and tend to seek employment elsewhere.

Sturges et al. (2005) explored the employee career management activities and found that career assistance from the employer helps to fulfill the psychological contract. An employee’s self-management of their career may “be part of the employee’s side of the deal, and that provision of career management help may be part of the employer’s side of the deal” (Sturges, et al., 2005, p. 835). The organizational commitment to provide career management may be a mediating factor that dissuades undesirable behavior such as leaving the organization.

*Job Satisfaction and Organizational Cynicism.* Organizational cynicism (Johnson & O'Leary-Kelley, 2003) is an attitude that develops when employees lose faith in their organization due to perceived violations of trust, honesty, and sincerity. According to Johnson and O’Leary-Kelley, the attitude can develop based on an employee’s own experience as well as experiences of other employees. Johnson and O’Leary-Kelley hypothesized that organizational cynicism and psychological contract breach were separate, but related, constructs because psychological contract breach was a person-specific exchange of promises. The results of the study indicated that organizational cynicism did not change employee job-related behaviors, job satisfaction, and work ethic, however, these work-related behaviors were affected by contract
breach (Johnson & O'Leary-Kelley, 2003). Tekleab and Taylor (2003) determined in their study of 478 non-faculty university employees and 283 managers that violations of an employee’s psychological contract were the primary reasons for job dissatisfaction and a desire to leave the organization.

**Workplace Behaviors**

*Organizational Citizenship Behavior.* A review of psychological contract literature reveals that an employee’s behavior can be correlated to the status of the employee’s psychological contract (Robinson & Rousseau, 1994; Rousseau, 1998). Robinson and Morrison (1995) explored the relationship between psychological contract breach and organizational citizenship behavior (OCB). Organizational citizenship behavior is defined as “representative or constructive gestures that are neither mandatory in-role behaviors nor directly or contractually compensated by formal reward systems” (Organ & Konovsky, 1989, p. 157).

Robinson and Morrison (1995) surveyed MBA graduates at three different intervals after hiring to determine if employees are less likely to engage in OCB when the organization fails to live up to perceived obligations. The outcome of the study revealed that when obligations are not met, an employee’s willingness to engage in OCB is diminished. The failure of the organization to meet its side of the bargain is viewed as unfair treatment (Robinson & Morrison).

Guest (1998a) questioned if the construct of the psychological contract was an extension of social exchange theory. Coyle-Shapiro (2002) attempted to answer the challenge by attempting to determine the role of promissory obligations in predicting employees’ OCB. Coyle-Shapiro maintained that the notion of obligations separate psychological contracts from social exchange theory because social exchange theory does not address future inducements. The study highlighted that “employees may engage in reciprocation based on the anticipation of receiving benefits from the employer and concurrently increasing the perceived likelihood that
they will be the recipient of those benefits” (Coyle-Shapiro, 2002, p. 942). The implications for managers are that a failure to fulfill perceived promises may undermine trust and set up a dynamic of undesirable OCB.

*Job Performance.* Ellis (2007) compared white- and blue-collar employees to determine if the two groups of employees perceived communication promises differently. Ellis argued that white-collar workers, due to the nature of their jobs, rely on communication to assist them in completing tasks, whereas blue-collar workers do not require as much communication to complete their tasks. The study supported the hypothesis that white-collar workers perceive communication promises to a greater degree than blue-collar workers do.

A Challenge to the Psychological Contract Construct

Guest (1998a) challenged many of the underlying constructs of psychological contract theory and the concept’s growing appeal to researchers. He maintained that the psychological contract “fits awkwardly within conventional psychological analysis. It is not a theory; nor is it a measure. Rather, it is a hypothetical construct, drawn, probably inappropriately from a legal metaphor” (Guest, 1998a, p. 650). Guest questioned whether the psychological contract is a fad or a problem that is overstated, and questioned the content validity, construct validity, and testability of the concept.

Concern notwithstanding, Guest (1998a) contended that psychological contracts are worth studying because the concept represents a shift toward the individualization of the employment relationship and psychological contract research represents a way of analyzing new employment relationships. Baker (2009) offered a prescriptive approach to the topic by suggesting that leaders need adopt a new employment relationship. The new relationship should consider the relational and transactional elements of the psychological contract and use these elements to align the needs of the individual with the interests of the organization. Guest also
stated that organizations are becoming larger and more monolithic, and that an unequal power relationship exists between the individual and the organization. Research in contract violations draws attention to the inequality of power.
References


Figure 1. A hypothesized model of the structure of the psychological contract model based on Guest and Conway’s (1997) construct.

*Note: The term, psychological contract, refers to trust, fairness, and promise keeping.*