

The Effect of Contract Violation on Indices of Organisational Behaviour

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Abstract

Researchers have described psychological contracts as an employee's beliefs regarding the terms and conditions of a reciprocal exchange agreement between that employee and the employing organisation. A key issue in the perceived agreement between the employee and the organisation is that the organisation will live up to its promises. The present paper makes an attempt to study the relationship of contract violation and organisational behaviour. The nature of the employee's psychological contracts has gained relevance in the last decade due to changes in the employment relationship. The present study examined the psychological contracts of 90 MBA students in two universities and the effects of contract violation on indices of organisational behaviour. A survey, consisting of the Psychological Contract Scale, measures of commitment and trust, and of perceptions of contract violation, was administered.

Introduction

A psychological contract represents the mutual beliefs, perceptions, and informal obligations between an employer and an employee. It sets the dynamics for the relationship and defines the detailed practicality of the work to be done. It is distinguishable from the formal written contract of employment which, for the most part, only identifies mutual duties and responsibilities in a generalized form. Research into the psychological contract between

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employer and employees has produced a number of important messages for managers and students of people management. Despite the academic origins of the term, many managers believe that the idea of the psychological contract offers a valid and helpful framework for thinking about the employment relationship against the background of a changing labour market. The notion that employees and employers form assumptions about their mutual obligations is well known in the organisational behaviour and human resources literature. Indeed, central to a modern understanding of the workplace is the idea that some form of exchange occurs between parties in an employment relationship, and that the nature of the exchange process can have a strong influence on organisational outcomes. In recent years, increased attention has turned to the psychological aspects of this relationship. In response to changes in the nature of employment and work, a large body of literature has emerged which has focused on the concept of the 'psychological contract'. The nature and implications of employees' psychological contracts has become a major research focus in the last two decades. Current employment trends, characterised by an increase in short-term employment contracts and a loss of job security, have resulted in a redefinition of career expectations and of the nature of the employment relationship. The current focus on company 'fitness' and 'flexibility' has led to a major shift in work and employment practices with direct implications for both individual employees and employing organisations. The changes in the employment relationship have added impetus to the study of the psychological contract. Psychological contracts in employment refer to 'an individual's beliefs regarding the terms and conditions of a reciprocal exchange agreement between that focal person and another party.' These beliefs can be highly subjective, and are affected by factors such as a person's upbringing, societal mores, and past experiences. In essence, the psychological contract refers to the assumptions or expectations that both employees and employers have about their responsibilities to one another that go beyond the formal employment contract. In other words, the psychological contract concerns beliefs about obligations, not the obligations themselves. Classical approaches to the psychological contract have considered both the employee and the employer as the 'parties' involved. The psychological contract looks at the reality of the situation as perceived by the parties, and may be more influential than the formal contract in affecting how employees behave from day to day. It is the psychological contract that effectively tells employees what they are required to do in order to meet their side of the bargain, and what they can expect from their job. It may not, indeed, in general it will not, be strictly enforceable,

though courts may be influenced by a view of the underlying relationship between employer and employee.

2. Types of Psychological Contract

Psychological contracts can be classified as relational and transactional. A relational contract is a socio-emotional base that underlies expectations of shared ideals and values, and respect and support in the interpersonal relationships. Akin to the traditional working 'partnership' between employee and employer, a relational-type relationship can engender feelings of affective involvement or attachment in the employee, and can commit the employer to providing more than purely remunerative support to the individual with investments like training, personal and career development, and provision of job security. Transactional contracts, this is the economic or monetary base with clear expectations that the organisation will fairly compensate the performance delivered and punish inadequate or inappropriate acts. Employees are more concerned with compensation and personal benefit than with being good organisational citizens. Relational contracts tend to describe perceived obligations that are emotional and intrinsic in nature, whilst transactional contracts describe obligations that are economic and extrinsic. Relational contracts are seen to have an open ended, indefinite duration whilst the time frame for transactional contracts is more specific and short-term. Consequently, transactional contracts are also said to be static whilst relational contracts are dynamic and evolving. In addition, the scope of relational contracts is more general and pervasive, subject to clarification and modification as circumstances evolve. Relational contracts are, therefore, more subjective and less tangible in comparison to transactional contracts.

3. Objectives of the Study

The broad objectives of the study are:

1. To evaluate the types of psychological contracts held by MBA students, using the classical, relational and transactional dimensions.
2. To analyse the association of contract violation with organisational commitment.
3. To assess the possible mediating effect of contract type, relational versus transactional, on the impact of contract violation.

4. Research Methodology

In line with the unique requirements of the study, which entails several tangible and intangible dimensions, an exploratory research design was used for the study. The research methodology can be segregated into the following stages:

- 1.) Participants
- 2.) Developing a questionnaire
- 3.) Procedure.

4.1 Participants

The questionnaires were administered to 90 participants (students) enrolled in Master of Business Administration (MBA) programs at the I.C.F.A.I University and IGNOU University. The sample contained 41 males and 49 females, with an age range from 21 to 51 (mean = 33.12; SD = 8.13). All participants had work experience; full-time work experience ranged from 1 year to 33 years, with a mean of 13.03 (SD = 12.63). Half of the participants (44.3%) were in management positions (marketing managers, project managers, office managers, risk managers), and a further 9.1% in upper management (regional managers, general managers, state managers). The remaining 46.6% were in non-supervisory or non-management roles. The mean number of jobs held in the participant's working lives was 4.15 (SD = 2.69), with a mean of 3.51 years (SD = 3.20) in their current position. With respect to education, bachelor degrees or higher were possessed by most of the sample (86.1%).

4.2 Developing a Questionnaire

The data was collected by means of a self administrated questionnaire. The survey contained a series of subsections pertaining to different aspects of the research, it includes the 17 item shortened version of the Psychological Contract Scale (PCS), and the 15 item Organisational Commitment Questionnaire (OCQ), both of which required participants to indicate the degree to which they agreed with the given statements on a 7 point scale which ranged from 1 (strongly disagree) to 7 (strongly agree). The PCS assesses the relational-transactional dimensions of the psychological contract, and produces a sub-scale score for each of these constructs. After these two measures, the survey battery included 7 items relating to trust in one's employer. Participants were asked to indicate the extent to which they agreed with the given items on a 5 point scale ranging from 1 (strongly disagree) to 5 (strongly agree). A combined trust score was calculated by averaging across the 7 items. Questions concerning

perceived violation of participants' psychological contracts followed. Violation was first assessed by asking participants to indicate, yes or no, whether they felt their employer had ever failed to meet the obligations owed to them. Participants were also invited to provide further details. In addition to this dichotomous measure, participants were asked to assess the extent to which they felt their expectations had been fulfilled, on a 5-point scale ranging from 1 (very poorly fulfilled) to 5 (very well fulfilled). This was to provide a continuous measure that could be used in correlation and regression analyses. Participants were further asked to indicate whether they felt their employer had ever exceeded the obligations owed to them, and prompted to provide more information. Finally, participants were asked for some basic demographic information including gender, age, years spent in the full time workforce, number of positions held during this time, position title, years spent in this job, and highest level of education completed prior to MBA enrolment.

4.3 Procedure

The questionnaire was given to participants on MBA class days. A brief outline of the study was presented and volunteers were then asked to fill out and return the questionnaire. Participants were instructed to answer the questions with a specific employer, current or otherwise, in mind. It was emphasized that the results of the surveys would be completely confidential.

5. Results

5.1 Types of Contract

Participants were found to have higher scores on the relational sub-scale versus the transactional sub-scale of the PCS. Relational scores ranged from 1.83 to 6.43 (out of a possible 7), with a mean score of 4.29 (SD = 0.97). Transactional scores, on the other hand, ranged from 1.4 to 5.6, with a mean score of 3.24 (SD = 0.94). This difference was found to be significant using a paired-samples *t*-test ($t(89) = 6.39, p < 0.001$). In this regard, the participants were more likely to hold relational-type expectations regarding their focal employment than transactional expectations. These psychological contact scores were then correlated with scores for organisational commitment and trust (see in Table 1).

Table 1
Correlations Between Psychological Contract Variables and
Organisational Behaviour Indices

	Fulfilment of Expectations	Relational	Transactional	Commitment
Relational	0.537*			
Transactional	-0.106	-0.317*		
Commitment	0.506*	0.683*	-0.326*	
Trust	0.406*	0.486*	-0.152	0.595*

Significant at $p < 0.01$

Relational scores were positively correlated with organisational commitment ($r = 0.683$, $p < 0.01$), and with trust in one's employer ($r = 0.486$, $p < 0.01$). Hence, higher relational scores were associated with higher commitment to the employing organisation and higher trust in the employer. Transactional scores, on the other hand, were only found to be correlated with commitment ($r = -0.326$, $p < 0.01$). This indicated a negative relationship such that higher transactional scores were associated with lower commitment to the employing organisation. No such relationship was found with the trust variable. In addition, a moderate negative correlation was found between the relational and transactional sub-scale scores ($r = -0.317$, $p < 0.01$); this may suggest that they are not independent constructs after all.

5.2 Contract Violation

Violation of psychological contract was assessed using two measures. In regard to the first measure, 'Has or had your employer ever failed to meet the obligations(s) you felt were promised to you?' 53.3% of participants indicated in the affirmative. Reasons supplied for this centred around issues such as: promises of potential for development; pay/benefits disputes; failure to pay for education/MBA; failure to provide opportunity for input; OHS problems, and being given false information. In regard to the second measure, the extent to which they felt their expectations had been fulfilled by their employer, the mean score out of a possible 5 was 3.38 (SD = 1.02), which was in the range between 'moderately fulfilled' and 'well fulfilled'. There were 43.2% of participants who indicated that their expectations were either 'well fulfilled' or 'very well fulfilled'. A one-way ANOVA was conducted with the dichotomous violation measure as the independent variable and perceived level of fulfillment of expectations as the dependent variable. As might have been expected, it was found that those participants who indicated that their employer had failed to meet their obligations had significantly lower

levels of perceived fulfillment than those who indicated that their employer had met their obligations ($F(1,79) = 17.15, p < 0.001$). The additional question asking participants whether their employer had ever exceeded the obligations they felt were owed to them, revealed that 34.2% answered in the affirmative. Reasons given for this centred on issues such as: flexible working conditions (e.g. working hours, emergency leave); payment of MBA, and being provided with good training and development. The effect of an employer's perceived failure to meet obligations on organisational commitment and trust was examined in two one-way ANOVAs. There was not found to be any difference between those participants who indicated that their employer had failed to meet obligations and those who did not in terms of organisational commitment ($F(1,88) = 3.15, p > 0.05$) or trust ($F(1,88) = 1.19, p > 0.05$). However, correlation analysis revealed that the extent to which participants felt their expectations had been fulfilled by their employer was positively correlated with both organisational commitment ($r = 0.506, p < 0.01$) and trust ($r = 0.406, p < 0.01$) (see table 1). Hence, those participants who indicated that their employers had fulfilled their expectations were more likely to be committed to their employing organisation and to trust their employer. The relationship between perceived fulfillment of expectations and the two psychological contract scores can also be seen in table 1. There was found to be a positive correlation between relational scores and perceived fulfillment of expectations ($r = 0.537, p < 0.01$), indicating that those with high relational scores were also more likely to state that their expectations had been met. On the other hand, there was no significant correlation between transactional scores and perceived fulfillment of expectations, indicating that these two variables were not related.

6. Conclusion

The aim of the current study was to extend the field of investigation of psychological contracts within an Indian context by examining MBA students at two Indian universities. It was found that participants were more likely to hold relational-type expectations regarding their employment than transactional expectations. Findings indicated that the perception of contract violation was associated with lower organisational commitment and trust. Significantly, it was found that the impact of contract violation on commitment and trust was mediated by relational, but not by transactional, contract scores. This study has demonstrated that psychological contracts are related to factors that affect the behaviour of employees in the workplace. It has been found that the relational dimension of the psychological contract, as opposed to the

transactional, appears to be an important mediator with regard to the effects of contract violation on the organisational outcomes of commitment and trust.

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Appendix 1

Regression Analyses Testing Contract Type as a Mediator of Contract Violation

Regression One:

Predictor = Fulfillment of Expectations

Criterion = Organisational Commitment

Mediator = Relational Score

