

***Breaches and violations of the psychological contract: A conceptual exploration.***

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**Abstract**

The psychological contract is the set of unwritten assumptions employees and employers have about the content of the social exchange between them, or an individual's beliefs regarding reciprocal obligations. The notion of the psychological contract is now used to describe the contemporary employment relationship. Research has shown that employees' emotions and attitudes control their behaviour, and that these emotions can be triggered by the perception of a breach of the psychological contract, resulting in inferior performance, demotivation, lower commitment, absenteeism, and turnover. This paper offers an exploration of the literature to gain insight into when employees perceive a breach of the psychological contract, and how they react to these breaches. The paper uses these insights to speculate how managers could manage the psychological contract.

**Keywords:** Psychological contract, emotions, employment relations, employee expectations, business psychology

## **Introduction**

Clutterbuck (2005) describes the psychological contract as the unwritten assumptions employees and employers have about the content of the social exchange between them. These assumptions are not necessarily shared, and the extent to which employees and employers hold different assumptions endangers the psychological contract. The concept of 'psychological contract' emphasizes the role of employees' emotions and attitudes as driving their behaviour at work (Armstrong 2002). A psychological contract is the interplay between 'wants' and 'offers' among employees and the organisation. When there is a match between what is wanted and what is offered, we speak of a psychological contract. Hence, like with any type of contract, the psychological contract involves an exchange. Different from other types of contract however, is that the psychological contract does not involve physical goods or services but rather intangible assets influencing how people feel and behave (Makin *et al.* 1996).

Organisations are increasingly looking for recruits who not only perform well but are also flexible and adaptable to change, but they might not consider what their recruits want in return from the organisation (Rousseau and Schalk 2000). Also, as strategies for organisations' competitive advantage have increasingly been centered on a service-orientation, many companies are emphasizing a strong value-oriented corporate culture (Rousseau 1990). One implication is that such organisations typically make certain commitments such as long-term employment to their employees, in exchange for loyalty and 'buy in' to the culture and values of the organisation from their employees (Rousseau 1990). In light of these developments, Tomprou and Nikolaou (2011) state that the 'psychological contract' is now used to describe the contemporary employment relationship, and how this has changed in relation to the current economic climate.

As organisations change and new situation arise, the established match between wants and offers might no longer hold. Hence, even though the psychological contract is an unwritten one, we can still say of a psychological contract that it has been breached or violated. Yet precisely because it is unwritten, it is not immediately clear how far the match between wants and offers can be stretched before employees perceive the contract as breached.

The aim of this paper is to explore the literature in an attempt to gain insight into when employees perceive a breach of the psychological contract, and how they react to these breaches. Ultimately, such insight can be used to speculate how managers could manage the psychological contract.

The paper is structured as follows. The next section clarifies what the psychological contract is. The section after that reviews research about the content of the psychological contract. The paper proceeds with sections about breaches, how employees react to breaches, and violations of the psychological contract. This then leads into a more speculative section on how to manage the psychological contract. The paper concludes with a conceptual model.

### **What is the psychological contract?**

The origins of the psychological contract can be traced back to the 1960s, in the work of Argyris and of Levinson, and later in the 1980s in the work of Schein. The notion itself is however ascribed to Rousseau's work in the last decade of the 20th century (Conway and Briner 2005, Dainty *et al.* 2004), who conceptualised the relationship between employees and employers in an organisation explicitly as that of a psychological contract. Rousseau (1990: 390) defines the psychological contract as 'an individual's beliefs regarding reciprocal obligations'. They arise in the context of 'interactions and exchanges with expectation of some continuity into the future' (Rousseau 1990: 392).

The concept refers to the beliefs of both employers and employees regarding what is given and what is received in return (Roehling 1997). However, Rousseau's work and the research based on that have been criticized as being one-sided (Guest *et al.* 2010). The argument is that Rousseau does not take both employers and employees into account. Although both parties have expectations about their relationship, in most research only the employee's perspective is included. This is indeed already inherent in Rousseau's conceptualisation, as she writes: 'Beliefs become contractual when the individual believes that he or she owes the employer certain contributions (e.g. hard work, loyalty, sacrifices) in return for certain inducements (e.g. high pay, job security)' (Rousseau 1990: 390).

A further drawback is that the term 'expectations' is broad. As the term entails a subjective perception of what both parties hope to receive for what they give, it is not straightforward to 'measure' these expectations. For Rousseau (1990: 390):

Psychological contracts differ from the more general concept of expectations in that contracts are *promissory* and *reciprocal*. [... However,] expectations formed during interactions regarding future patterns of reciprocity can constitute a psychological contract for an individual who is a party to the relationship.

The ability to explain the behaviours and attitudes of employees towards work can be explained through failed or unfulfilled promises (Guerrero and Herrbach 2008). According to Pate and Malone (2000) fulfilled and unfulfilled promises play an important role in any type of contract, including psychological contracts, and can determine the level or lack of trust in an organisation. Rousseau et al.(1998) develop a multi-level element of trust that allows to perceive trust and promises as depending on either the individual or situational elements within relations between the individual, the group, and the organisation.

### **Promises about what, and how to keep them**

Rousseau (1990) analysed the content of a psychological contract by asking managers about the promises and commitments made to new recruits. Promises employers sought from recruits included loyalty, volunteering, advance notice if taken a job elsewhere, willingness to accept a transfer, refusal to support the employer's competitors, working extra hours, and remaining with the organisation for a minimum of two years. Promises made to recruits included long-term job security, promotion, support with personal problems, pay based on level of performance, career development, and high pay.

Dainty et al. (2004) studied the psychological contract in construction projects and found that promises were made about transactional deals such as ensuring fair and equitable salary to employees and benefits packages, and relational aspects included recognition of contribution towards the organisational growth, training, job security, career development, recognition and feedback on performance, fairness and justice in

personnel procedures, support on personal and family related problems, consultation, and promotion.

Shen (2010) describes the psychological contract as having both a transactional and relational element. Transactional elements are associated with pay, working hours, and the employment time-frame. Relational elements then relate to career prospects, responsibilities, and work place opportunities. Dainty *et al.* (2004) see relational contracts as based on open-ended relationships around loyalty and trust, whereas transactional contracts are based on short-term relationships characterised by mutual self-interests. According to Shen (2010) employment contracts are now more transactional due to job uncertainty.

Agreement and ambiguity of the contract's terms depends on the individual's perceptions of the contract (Clarke and Patrickson 2008). Rousseau (1989) argues that organisations will differ in what they view as the exchange relationship and the promises made to employees. Understanding psychological contracts, its patterns of perceptions, expectations of what the organisation and employees owe, its promises, and what is provided is vital for the smooth running of the organisation (Edwards 2010). In this regard, Li and Lin (2010) argue that the financial crisis created many problems for organisations, including increased stress, pressures of unemployment (redundancy), a decline in the quality of work, a decline in living quality, a decline in employee satisfaction, loyalty, and performance in the work place. Moreover, the high-speed and fast-paced modern lifestyle of society has led to a dramatic change in how organisations are now run.

Apart from specific characteristics of a particular industry, we can also distinguish between public and private sector. Guest (2000) found that organisations are more likely to adhere to promises if human resource practices are well developed in an organisation. Comparing public and private sectors on this variable, Guest (2000) and Guest and Conway (2004) found that central government and NHS made more promises than the private sector but was less good at keeping them.

Kickul and Liao-Troth (2003) conducted a study on communication and its meaning towards employee perceptions of their psychological contract. They found that effective communication can significantly influence the way in which employees view and understand their psychological contract. These authors have called for new research into how employees establish and develop their contracts. Such research

would counterbalance the existing focus on violations and attitudes towards the psychological contract.

Parzefall and Coyle-Shapiro (2011) on the other hand state that there is still not enough knowledge about breaches and violations of psychological contract. A remaining research need is to find ways to measure how individuals compare their perceived breaches with that of others in the organisation in order to investigate if such comparing changes their opinion of what counts as a breach of contract.

### **Breaches of the psychological contract**

According to Xu (2008) the psychological contract is a set of expectations that employees and employers hold of each other with regard to obligations they have towards each other. A breach of psychological contract then is the perception one party has that the other party has failed to fulfill these obligations (Guerrero and Herrbach 2008, Pate 2006, Xu 2008). Bal and Smit (2012) found age related differences in perception of breaches. Older workers were more sensitive about the aspects of their psychological contract compared to younger workers. Older workers also expected more due to years of service and experience.

Breaches occur due to factors such as broken promises (pay cuts), withholding promises (delaying bonuses), imposing longer working hours, incongruence of expectations due to unexplained or misunderstood changes in perception of what is fair or unfair. Breaches can also occur because of a 'contract drift' (Shields 2007), which is a gradual divergence of what is involved in the exchange relationship and what each party believes should be involved. Contract drifts can occur due to an organisational change such as a restructuring, merger, or acquisition.

Addae *et al.* (2006) found that where a lack of organisational support was perceived as a breach of employees' psychological contract, this led to a high turnover if no effort was made to resolve the breach. Breaches of the psychological contract can reduce trust in an organisation, but likewise a lack of trust can also cause the employee to perceive a contract breach (Atkinson 2007, Kramer 2006).

## **Reactions to breaches**

Breaches to the psychological contract are regarded as emotional events (Bal and Smit 2012). Atkinson (2007) found that reactions to perception of breaches of the psychological contract include anger, resentment, sense of injustice, dissatisfaction, and the possibility of a dissolving relationship. Robinson *et al.* (1994) found that reactions to breaches varied depending on the perceived nature of the contract. When a psychological contract was more transactional than relational, individuals' reactions to perception of breach of the contract was less severe. In addition, research has found that if the employee decides to carry on working for the organisation after he or she perceived a breach of their psychological contract, the contract becomes more transactional (Atkinson 2007, Herriot and Pemberton 1997, Pate *et al.* 2003).

The study of Bal and Smith (2012) on emotional reactions among employees to breaches of the psychological contract, showed these reaction influenced their attitudes and behaviours towards work. Thus negative emotions such as anger or frustration about a breached contract also make employees' cognitive views of their job more negative, reducing their motivation level and decreasing their effort and activation at work (Parzefall and Coyle-Shapiro 2011).

## **Violations of the psychological contract**

Parzefall and Coyle-Shapiro (2011) found that emotional responses immediately follow breaches, but these emotions become stronger if the employer's actions perceived as a breach are not justified. They also found that emotional reactions were detrimental to the level of trust in a relationship and ultimately to the relation itself, if these reactions had a lasting impact on the employee's views of the employer. Hence a breach of the psychological contract does not automatically and necessarily lead to a violation of the psychological contract. Suazo and Stone-Romero (2011) explain the distinction between breach and violation of the psychological contract as follows. A breach is the perception by the employee that they have received less than what they were promised. A violation is the depressing emotional state that follows a breach.

This distinction is relevant for management. Tomprou and Nikolaou (2011) claim that since today recruits tend to expect more from their psychological contract

compared to previous generations, we can also expect more new recruits experiencing violations of their psychological contract rather than mere breaches. Rozario (2012) claims that violations lead to a personal withdrawal from the organisation and a non-fulfillment or lack of productivity. A reaction to a breach of psychological contract (i.e. a violation) is influenced by the individual's sense making process. This process is the way in which an individual understands, interprets, and creates meaning based on the information available to them (Parzefall and Coyle-Shapiro 2011, Weick 1995). Underlying the sense making approach is the idea that when something unexpected takes place, an explanation is needed. If the explanation is not provided or the employee is not satisfied with the explanation, the employee will 'make' their own explanation in terms of a violation of the contract, triggering negative attitudes and behaviours.

Chiang *et al.* (2012) found that violations of psychological contract usually occur during rapid, unpredictable changes in an organisation. Dulac *et al.* (2008) showed that when a breach is perceived, the relationship between the employee and the employer will be a determining factor in the sense making process that might or might lead to feelings of violation.

### **When should organisations manage expectations?**

As indicated in the introduction of this paper there are reasons to believe the notion of the psychological contract is very important with regard to managing people in today's organisation. These reasons have to do with the strategic adaptation of organisations to their environment: a greater reliance on service-oriented business, and a need for flexible and adaptable employees. The crux of managing the psychological contract is to manage expectations so that perception of breaches can be avoided or at least minimized so that they do not lead to perceptions of violations of the psychological contract. The question then becomes *when* to manage these. Is it better to manage expectations at the recruitment stage, or is it more worthwhile to manage expectations as an ongoing process, or post-recruitment stage?

To answer this question I will focus on two studies. The first is Cohen (2012) who did a quantitative study with 313 participants who were employees of one of the largest banks in Israel. Average tenure was 13.2 years, and 73 percent held a university degree.

The second study is the qualitative study by Parzefall and Coyle-Shapiro (2011), who conducted 15 semi-structured interviews in a Finish company with workers who had been with the company between six months and six years, aged 30-35, and all had university degrees. They used a critical incident technique (CIT) during the interview process. Cohen (2012), building on Conway and Briner (2009) and Ho *et al.* (2004), works with the hypothesis that since people's personality will play a role in how they experience a breach of the psychological contract.

More precisely, Cohen (2012) studies the role of individuals' values on their psychological contract. Cohen found that if an employee's values are reflected in the workplace, the psychological contract is more relational than a transactional. Hence understanding an individual's values at selection stage is important and useful in order to gain insight into the type and content of psychological contract potential employees may involve themselves in. Managing the psychological contract is thus done at hiring stage to make sure there is enough person-organisation fit in terms of converging values.

Parzefall and Coyle-Shapiro (2011) on the other hand work with a sense making approach (Weick 1995). They found that breaches of psychological contract can be triggered by a range of events from an unusual and unexpected event to an everyday regular failure to meet the employee's side of the deal. They also found that employees attempt to explain and understand what happened and why, so as to make sense and transfer the blame. This sense making approach allows to show the interplay between cognition, emotion, and action in understanding employee's response to contract breach - i.e. violation - depicting a range of ways in which employees' psychological contracts can be breached and violated.

Where Parzefall and Coyle-Shapiro (2011) show that 'small' events would not constitute a breach on their own, but do so when they occur on a regular basis and accumulate in the employee's perception to a breach of contract, one could argue that Cohen's (2012) assessment of the importance of personality and the person-organisation's value 'fit' is an important lesson for an employer in managing the psychological contract. Avoiding perceptions of breaches is key and possible.

Parzefall and Coyle-Shapiro (2011) also find that when employees perceive a breach of their psychological contract, they attempt to understand this breach as an intentional breach. If they are able to make sense of the breach in that way, the breach is perceived as more serious than when the breach can only be understood as caused

by external factors. Hence, if a breach was seen as out of the control of the immediate managers, the employer-employee exchange relationship remains intact, and the breach is not perceived as a violation. Where the cause of the breach cannot be fully attributed to external factors, the level of justification, moderated by previous occurrences of the breaching event determines the perception of a breach as a violation.

While Parzefall and Coyle-Shapiro (2011) found that everyday breaches had the most effect on an employee's perception of breach - hence why Cohen's (2012) suggestion of understanding job applicant's values is important in avoiding perceptions of breach - it must also be noted that perceptions of breach are to some extent unavoidable. Partly because not every situation can be predicted or buffered, but also because an assessment of personal values at selection stage makes it statistically less likely that breaches will occur, which of course does not rule it out.

Where breaches do occur effort must be made to prevent the experience of a breach to trigger a perception of violation of the psychological contract, which in turn alters attitudes and behaviours. Parzefall and Coyle-Shapiro (2011) have indicated managing breaches in this sense is also possible, but it means management will have to provide a justification for the unfulfilled promises.

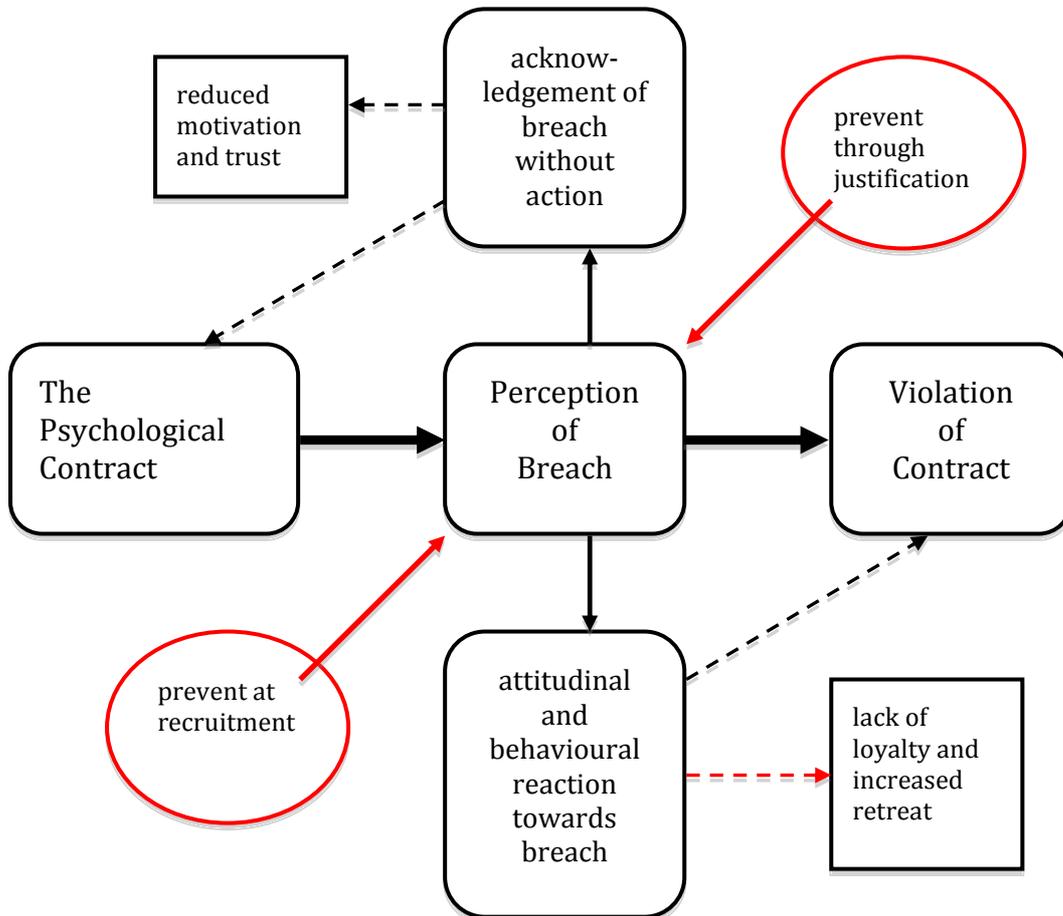
## **Conclusion**

This paper explored the research literature on the psychological contract to gain insight into when employees perceive a breach of their psychological contract, and how they react to these breaches. The psychological contract is an unwritten set of expectations about what employer and employee will give and receive in the context of the workplace. These expectations are promises and can either be at a transactional or a relational level. These expectations emerge from a history of interactions or are signaled at the beginning of the employment relation.

Because organisations need to adapt to a changing environment, breaches of the psychological contract will happen in any organisation. These breaches can trigger emotional reactions that alter the attitudes and behaviours of employees towards the employment relation. If this is the case then employees perceive the breach as a violation of the psychological contract. Organisations can manage the psychological contract at the selection and recruitment level by attempting to ensure a fit between

the job applicant's and the organisation's values. However, managers need to be able and willing to offer justifications when breaches happen if they want to avoid these breaches to be perceived as violations of the psychological contract.

The conceptual exploration in this paper is represented in figure 1.



**Figure 1. A model of breaches of the psychological contract**

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