CHAPTER I–INTRODUCTION

Rules of the game are changing. Employees can no longer expect job security in return for loyalty. Economic slowdown and increasing competition have forced changes in the employment relationships. The sense of security, fulfillment and satisfaction at workplace is replaced by a sense of fear, uncertainty and stress. Morrison (1994) referring to the situation caused by downsizing and restructuring stated that “There have been significant effects on the relationships with one’s boss, who for many has become less personally involved; peers, who have been more competitive for fewer resources; customers, who are more demanding; organization, which has become less personal”. This was referred to several years earlier, but the situation still holds good. In fact it has deteriorated further.

To improve profitability, organizations have resorted to layoffs. For example Google Inc’s Motorola Mobility is laying off 1200 employees, around 10 percent of its headcount in US, China and India. The reason stated was to keep costs down. In the fourth quarter of 2012, it reported losses as high as $350 million (Hindu Business Line, March 8, 2013). Citigroup CEO, Micheal Corbat said that the bank would cut 11000 jobs or 4% of its staff, while Morgan Stanley announced plans to cut 1600 employees or 3% of its staff (CNN Money, January 15, 2013). While these were few instances that happened in the US, the Indian scenario is not much different.

According to Mercer’s 2013 Total Remuneration survey, that surveyed 734 organizations across seven industries, pharmaceutical and medical equipment, auto and automobiles, chemical, consumer goods, manufacturing, hi-tech (telecom, IT) and oil and gas, retrenchment in first half of 2012-2013 was highest in pharmaceutical and healthcare sector with 4.4 percent, which they stated was due to non-performance. The survey revealed that companies were more open in giving the reasons for laying off, which is often cited as non-performance. Infosys has stated that it has asked its “under-performers to seek other jobs” and this number might be nearly 5000. The
company said its part of normal business routine and part of robust performance management (thehindubusinessline.com, March 7, 2013).

While this is with regard to layoffs, NASSCOM had stated that job creation in the IT and services sector is likely to drop from 1.8 lakh in the previous fiscal to 1.3 lakh jobs (thehindu.com, April 11, 2013). Mercer’s 2013 Total Remuneration survey revealed that 72 per cent of the respondents indicate recruiting for new positions and attrition backfill over the next twelve months, though there is a 12 per cent decline from hiring intentions in 2012-13.

Hiring has become less and layoffs more, meaning that those retained will have to work more. But on the other hand, to attract, recruit and retain the best talent, organizations not only offer competitive salaries to their prospective employees, but also offer promises that lure them into taking up these jobs. The problem is that these promises can be kept only when there is expected growth in profitability and opportunities. Once these employees enter and start gaining real life experience, if the organizations are not able to keep up the promises, it raises questions regarding the credibility of the organization in their minds. Hence they start viewing their organization with suspicion. When the relationship lacks trust, it reflects in the work attitudes and thereby the work behaviours, namely the performance.

This research deals with the impact of broken promises on employee’s work attitudes and behaviours. Employees develop beliefs about their obligations to the organization and that of the organization towards them. This is termed as psychological contracts (Rousseau, 1989). When the employee perceives that promises are not kept by the organization, it leads to mistrust and negative feelings in the minds of the employee termed as psychological contract breach and this breach has negative ramifications in the workplace (Rousseau, 1989). To truly comprehend the intensity of negative implications of the perception of broken promises, one needs to have an in
depth understanding of what psychological contracts are, which this chapter attempts to bring out.

This chapter discusses what psychological contracts are, how they are formed and how it is bound to changes. The conceptual theories on which it is based, types of psychological contracts, fulfillment of psychological contracts and its positive workplace effects are then discussed. This theoretical background is essential for understanding psychological contract breach and its impact, which is the main emphasis of this study. This is followed by an introduction to psychological contract breach, the need and intent of this research.

1.1. Psychological Contracts

Different researchers have emphasized the importance of psychological contracts in different ways. Schein (1965) viewed psychological contracts as a central way of understanding employment relationships. The psychological contract is an exchange concept that provides broad explanatory framework for understanding employee-organization linkages (Shore & Tetrick, 1994). According to Shore & Barksdale (1998) psychological contracts are important in understanding what individuals experience in their employment relationship.

Psychological contracts are ‘an individual’s set of beliefs regarding the terms and conditions of a reciprocal exchange agreement between the focal person and another party’ (Rousseau, 1989, p123). In the employment context, it refers to the set of beliefs an employee holds with regard to his/her obligations to the organization and that of the organization towards him/her. Psychological contracts develop based on the premise that a promise has been made by the organization (in terms of pay, benefits etc.,) and a contribution (in terms of using one’s skill, ability and talent for the organization) has been offered in exchange for it (Rousseau, 1989). This forms the basis of the perception of reciprocal obligations.
Though psychological contracts are an employee’s perception about the mutual obligations, they are not mere expectations. Psychological contracts differ from expectations in that contracts are promissory and reciprocal (Rousseau, 1990). These are promissory expectations that developed based on implicit or explicit promises made by the organization or its representatives (Robinson, 1996). Reciprocity refers to belief that contribution has to be offered in return for some benefit from the employer. Employees’ expectation of allotment to a project on successful completion of training is an example of contractual expectation.

Rousseau (2001) states that employment relationships cannot exist without promises. Psychological contracts are promise-based. Conditional promises or reciprocal obligations such as hard work in exchange for pay, make up psychological contracts (as cited in Conway and Briner, 2005). Unconditional promises that do not involve an exchange are not part of psychological contracts. For example, ‘you have a job for life’ (Conway and Briner, 2005, p.82) are not part of contracts. These promises can arise from words (either spoken or written) or can be interpreted through actions. According to Rousseau (2001), commitments, warranties, pledges and voluntary agreements are all different names for a promise. For example, a resume of an applicant is a warrantee that the individual has the educational qualifications and the experience that the document warranties. Promises conveyed through speech can be of two forms, assertive or commissive (Rousseau, 2001). Assertive speech commits the speaker to something, provided a case specified happens (a warrantee – this will be done in case that happens) and commissive speech commits the speaker to a course of action (an explicit promise). Promises when applied to oneself help in regulating one’s behaviour. Along the same line, psychological contracts, which is based on promises act as self-regulating mechanisms that motivate individuals to perform actions as per the agreement (Rousseau, 2001).
The psychological contract as a type of promissory contract has three components, promise, payment and acceptance (Rousseau & Parks, 1993; Shore & Tetrick, 1994). Promise is a commitment to a future course of action. As explained earlier, psychological contracts are formed based on the perception of promise made by the organization to the employee. For example a promise of promotion for hard work may be perceived by the employee. Promise leads to employee’s efforts in expectation of a payment. Payment refers to something that the person values, that the organization offers in exchange for the promise and the effort (Shore & Tetrick, 1994). Hence when the organization rewards the employee as per the perception of the employee, then it leads to fulfillment of organizational obligations. Acceptance refers to voluntary agreement to engage in contract terms (Rousseau, 1989; Rousseau & Parks, 1993; Shore & Tetrick, 1994). Both parties are responsible for upholding the promise and either may choose to violate the same (Shore & Tetrick, 1994).

Psychological contracts develop even when formal employment contract exists. This is because it is not possible to work out all aspects of employment in a formal contract. Hence employees develop psychological contracts as a means to reduce uncertainty or to improve predictability in their employment relationship (Shore & Tetrick, 1994). Individuals form schemas which are pre-existing knowledge systems to interpret their organizational world and thereby behave appropriately (Lord & Foti, 1986; Shore & Tetrick, 1994). Psychological contracts are one such cognitive schema that employee develops regarding what to expect from the organization and what they are expected to contribute in return. Though it is fairly simple at the time of entry, as employee gains organizational experience it becomes complex. But they provide the employee with order and continuity in the complex employment relationship thereby providing predictability and control (Shore & Tetrick, 1994). Psychological contracts are said to arise from unconscious thought processes that the parties to the contract themselves are not aware of (Levinson et al., 1962 as cited in
Psychological contracts have two parties involved in it. One is the employee, but the other party in the psychological contracts is the organization. In small organizations, there is a single individual employer. But in large organizations one single individual cannot be represented as the employer. Psychological contract messages are communicated via organizational representatives such as HR executives, managers, supervisors etc., According to Rousseau (1989), employees treat the organization, via the process of ascribing human characteristics (anthropomorphizing) to the organization, as a single entity. This personification of organization is possible due to the fact that the organization has moral, legal and financial responsibilities for the actions of their agents and its policies and practices have continuity irrespective of the agents involved in it (Eisenberger, Huntington, Hutchison & Sowa, 1986; Robinson & Morrison, 1995). Based on this process, employee develops beliefs regarding mutual obligations. But, employee’s belief about the obligations underlying the employment relationship may not be shared by the agents of the organization (Morrison and Robinson, 1997).

Rousseau (1995) distinguished psychological contracts from normative, implied and social contracts. The psychological contracts refers to the individual’s expectations that may or may not be shared by others while normative contracts refers to commonly understood or shared expectations of the members of a social group such as part-time employees of an organization. Implied contracts are interpretations made by outsiders (those not party to the contract) regarding the terms, acceptance and mutuality of contracts. Rousseau (1989) had earlier defined implied contracts as patterns of reciprocity existing at the level of the relationship (dyadic, interunit). Social contracts are cultural contracts which is based on shared collective beliefs.
regarding appropriate behaviour in a society. (Rousseau, 1995). Thus psychological contracts that exists at the individual level are clearly distinct from other types of contracts.

In conclusion, Rousseau (2004) sums up that psychological contracts are shaped by six defining features. They are, (1) voluntary choice - psychological contracts are based on exchange of promises in which the individual has committed voluntarily. Commitments made voluntarily are tend to be kept. (2) Belief in mutual agreement – though individual’s psychological contracts is his/her own understanding of mutual obligations, an individual still believes it’s a shared understanding between the employer and the individual concerned. (3) Incompleteness- since all details of long term employment cannot be spelled out initially, psychological contracts tend to be incomplete. Over time, psychological contracts become elaborate and both parties fill the blanks leading to inconsistent understandings which could be rectified by periodic efforts. (4) Multiple sources – employees interpret psychological contracts based on the information they receive from multiple sources- from boss to managers to subordinates. When messages are inconsistent, it spoils the mutuality of the contract. (5) Managing losses when contracts fail – losses that arise when either of the party to the psychological contract is unable to fulfill its obligation to the other, have to be managed to avoid strong negative reactions. (6) The contract model of employment relationship - Psychological contracts act as a mental model providing a stable understanding which helps the employer and the worker function despite having incomplete information about what the other party’s intentions or expectations are.

Mutuality of psychological contracts means that both the parties in fact hold same beliefs regarding their obligations towards each other. Factors that could give rise to mutuality are (1) objective accuracy in individual perceptions, (2) shared information between the parties, (3) having the right to ask for terms of agreement and (4) having the right to consent or reject terms of agreement (Rousseau, 2001).
Accuracy is possible when the parties are familiar with one another and share prior experience in similar situations. Also, greater the information they share, lesser is the probability of lacking necessary information. Having the power to ask for terms of agreement leads to greater chances of direct communication. Finally having the power to reject or accept terms of agreement provides an opportunity to hear each other’s inputs leading to mutuality (Rousseau, 2001).

1.2. History of Psychological Contracts

Conway and Briner (2005) split the history of psychological contracts into pre-Rousseau period, the one prior to Rousseau’s reconceptualization of psychological contracts in 1989 and the Rousseau period, the one after it. The reason was that, psychological contracts as we use it today is Rousseau’s reconceptualized version which cleared most of the ambiguities that was attached with the concept.

Pre-Rousseau’s period was characterized by the works of number of researchers from different disciplines who used different conceptualizations and definitions of psychological contracts (Conway and Briner, 2005). March and Simon (1958) came up with the contributions - inducements model based on Barnard’s (1938) exchange model. According to this model, individuals exchange ‘contributions’ for the ‘inducements’ they receive from their employer (as cited in Conway and Briner, 2005). Here contributions refer to employee inputs into the exchange (such as skill, effort) whereas inducements refer to organization’s inputs (such as pay, growth opportunities). It was Argyris (1960) who first used the term ‘psychological contact work’, by which he referred to the unspoken work agreement between the foremen and their employees in the US factory. Levinson et al., (1962) continued the work of Argyris and was the first to come up with the concept of ‘mutual expectations’. According to him, psychological contracts are mutual expectations between the parties to the employment relationship, which they may not be aware of, yet which governs their relationship. It is an unwritten contract that is largely implicit and unspoken and
forms even before the employment relationship. Levinson et al. (1962) introduced violation of contracts as that which occurs when changing expectations threaten the state of interdependence and balance between the two parties (as cited in Conway and Briner, 2005).

Next important contribution to psychological contracts was by Schein (1965; 1970; 1980). According to him, psychological contracts are a set of unwritten expectations that the employee has about the organization and that the organization has about the employee. These unwritten expectations largely influence one’s behaviour. According to him, employee’s satisfaction, commitment, effectiveness and loyalty depends on the extent of match between employee’s expectations about what they owe and what they would get and organization’s expectations of what it would give and what it would get (Schein, 1965). Kotter (1973) empirically validated the same and found that greater the match between the expectation of the employee and the organization, greater was their job satisfaction, productivity and lesser the turnover.

Even though Argyris, Levinson and Schein had made their contribution to conceptualization of psychological contracts, there was not much empirical research done in that area during that period of time. It might be so because of the conceptualization of psychological contracts was not precise, for example whether beliefs denoted expectations, obligations or needs (Conway and Briner, 2005).

Then came Rousseau’s (1989) first work on psychological contracts which removed the inherent ambiguity about contracts. She defined psychological contracts as an individual’s belief about the terms and conditions of the reciprocal exchange agreement between the employee and the organization. What made this definition different from others is the fact that belief here represents only those which are based on promises made explicitly or implicitly. Another important contribution by Rousseau is that, while earlier researchers emphasized matching of expectations,
Rousseau questioned the idea of organizations having psychological contracts or set of subjective beliefs. Hence she emphasized that psychological contracts are held at the individual subjective level and it is from the employee’s perspective (Conway and Briner, 2005). Psychological contract comprises employee-focused obligations and employer-focused obligations. Employee focused obligations refers to the obligations to be fulfilled by the employee while employer focused obligations refers to the obligations to be fulfilled by the employer, both from the employee’s perspective (Rousseau, 1990). But there were other researchers who thought otherwise.

Guest (1998) argues that this exclusive emphasis on employee’s perspective and negligence of employer’s perspective may in fact divert the focus from the core of the psychological, the reciprocal obligations between the two parties. Hence to assess mutuality between the two parties to the exchange, it is necessary to include employer’s perspective (Coyle-Shapiro & Kessler, 2000). Though it is true that organizations cannot hold subjective psychological contracts, manager’s as organizational representative can hold psychological contracts with their employees. This was justified stating that employees view actions by agents of the organization as the actions of the organization itself. Hence agents of the organization can hold psychological contracts (Coyle-Shapiro & Kessler, 2000).

1.3. **Formation of Psychological Contracts**

According to Rousseau (2001) psychological contracts are largely formed through pre-employment experiences, recruitment practices and early on-the-job experiences. How these experiences and practices shape psychological contracts has been explained on the basis of schemas.

“A contract is promise-based and over time takes the form of a mental model or schema which like most other schemas is relatively stable and durable” (Rousseau, 2001, p. 512). Context in which the promise is made is an important factor that would
determine whether it would be interpreted as a promise. Recruitment, socialization, performance reviews are occasions where promise-making is expected. Hence verbal expressions made during these occasions would be treated as commissive promises.

A schema as explained earlier, represents a prototypical abstraction of a complex concept. It gradually develops from past experience and subsequently guides the way new information is organized (Stein, 1992 as cited in Rousseau, 2001). Every individual develops schemas to simplify and understand the world around them. Likewise, they form schemas regarding employment relationship. Individuals possess pre-employment schemas, based on one’s professional norms or ideologies and based on prior socialization that could be societal, occupational or related to previous employment. While these pre-employment schemas have widely shared features, there would be individual differences as well. Based on one’s professional ideology his/her schema would vary (Rousseau, 2001).

Newcomers have limited information regarding their employment relationship. Schemas help to deal with this incomplete information, as they are interpretative and inferential (Crocker, Fiske & Taylor, 1984 as cited in Rousseau, 2001). Information from co-workers and immediate supervisor are the most common source of information that can help employees understand their employment better. Hence in this information-seeking phase, based on (a) the quality of the sources of information and (b) consistency of the information provided across sources, individual schemas would differ. One who has a supportive supervisor would get useful information that would help in building a better schema than the one with a non-supportive manager. New hires when they join the organization for the first time, their schemas regarding employment relationship is largely simple. As they gain experience and encounter real life experiences on the job, their schemas develop. They fine tune their schemas based on the feedback received from the environment. Once their experiences are in tune with the beliefs their schemas hold, they tend to reach completeness. Once fully
developed, schemas are stable. These schemas provide order, structure and predictability for the employee.

Shore & Tetrick (1994) came up with a conceptual model of how psychological contract develops at the pre and initial employment. There are two parties that are involved in the development of contracts, the individual and the organization. Discussing the role of the individual in development of psychological contracts, they place the argument that every individual behaves in a way consistent with his/her goals. Therefore an employee actively seeks information regarding issues that are consistent with his/her goals. Hence development of psychological contracts can be seen as a deliberate goal-oriented process. The extent to which they seek information regarding pay, benefits or promotion (transactional aspects) or long term employment opportunities (relational aspects such as training, career development, job security) will depend on their goals. Employees may use variety of techniques to seek information regarding psychological contracts namely inquiry, monitoring and negotiation. When the employee seeks information regarding transactional aspects, they might use inquiry or negotiation but when they seek information regarding relational aspects, such as extent of support for personal problems, they may use monitoring techniques, due to the fact that these are information that cannot be asked explicitly. Individuals monitor environment for information that fulfills their goals. For example, if the manager is discussing about training to an employee who is more interested in pay, this information is bound to be ignored. Individuals also try to actively negotiate an agreement consistent with their goals. All these three information seeking strategies contribute to development of psychological contracts. Information so gathered may not be complete or individuals incorporate only a part of available information from the external environment and then derive meaning from that information in their own unique way. This is one of the reasons that psychological contracts are subjective in nature.
Shore and Tetrick (1994) next move on to the role of organization in psychological contract development. During recruitment and organizational entry, organizational representatives try to “sell” their organization to the recruits. Due to this fact, new hire employees get different messages especially during the initial stages of employment, and hence there are greater chances of them perceiving a breach in contract during the early stages of employment. Once they get stabilized in the organization, there would be continuity in the messages relayed. Organizations may form employment contracts based on its organizational strategy. For example, an organization in a changing environment may strategize to form short term temporary employment contracts. Hence a specific type of contract may be prevalent in an organization. Shore and Tetrick (1994) suggests that contracts differ based on four strategic contract themes. First, contracts differ based on the specificity of contracts. Second it differs based on the duration of the contract, the extent to which it incorporates investments and long term relationships. Third, contracts vary based on whether they are transactional and relational. Fourth, contracts vary based on whether the organization establishes individualized or standardized contracts. Standardized contracts arise when organizations employ fairly uniform strategies in negotiating contract with employees, which represents the egalitarian strategy. In contrast, organizations may individualize contracts based on the negotiating power of the employee that is if the employee possesses some specialized skills they may be provided with better opportunities and rewards. This represents the equity strategy in which based on employee contributions, employee inducements would be given. Finally they state that the goal of the organization may also impact the psychological contract of its employees. For example, for a customer focused organization, establishing long term relationship may be important, and hence they may form long term relational contracts as opposed to an organization that faces tough competition that triggers the need to be flexible, thereby it influences its strategy to form transactional contracts with its employees.
Shore and Tetrick (1994) explains that a number of organizational sources are responsible for the development of contracts. Prospective employees even before they interact with the organizational agents may have information about a particular organization through a variety of sources such as media, friends, relatives etc. Prior to organizational entry, they form contracts based on the interaction with the organizational representatives, say recruitment agents or HR managers. Newcomers rely much on their supervisors for information, as they believe that they are the ones who are going to execute the contract terms. They rely much on their coworkers too, for information, during socialization. Sensitive information that cannot be discussed explicitly during recruitment such as fairness of the supervisor, can be acquired through informal interactions with coworkers. An employee may assess the extent to which his/her contract is equitable based on communication with the coworkers regarding pay, promotion etc. They may also develop beliefs based on interactions among coworkers or interaction of the coworker with the supervisor.

In general, researchers suggest that for formation of contracts, two factors are critical. One is the external messages from the organization and the other is personal interpretations and dispositions (Rousseau, 1995; Coyle-Shapiro & Kessler, 2002a). In a similar vein, Turnley and Feldman (1999a) suggested that psychological contracts of individuals develop from three main sources, that is, specific promises made by the organizational representatives to the employees, their own perception of the organization’s culture & common practices and their own unique expectations regarding how the organization operates. During ‘anticipatory socialization’ organizational agents make specific promises regarding what they can expect from the organization to their employees (Turnley & Feldman, 1999b).

Promises need not be communicated only explicitly (Rousseau, 1990). Promises can be interpreted from non-verbal sources such as observation, history and interactions over time. Administrative policies are a common source of promissory
messages. Benefits that accrue with seniority implies that the organization values individuals who stay with it. Recruitment policies, training programs, performance reviews and incentive systems all convey promissory signals (Rousseau, 2001).

Research on promises has shown that inclination to make promises and to a tendency to make more promises than less occurs in early stages of one’s employment when the parties to the contract aren’t familiar with one another. It gradually declines over time, and they start interpreting promises from actions as familiarity increases (Rousseau, 2001). Also, when parties to the contract are of similar backgrounds, greater is the frequency with which promises are made. When promises conveyed through words and interpreted through organization’s actions are in tune with each other, impact of the promise is more (Rousseau, 2001).

Perception of organizational culture or standard operating procedures, may aid in developing beliefs by early socialization experiences regarding how they would be treated and what they can expect to receive (Turnley & Feldman, 1999b). It can also arise from interpretations from past exchanges of the employee with the organization such as training and expecting the same to continue in the future (Eisenberger, et al 1986; Shore & Tetrick, 1994). By witnessing other employees’ experiences (Robinson & Rousseau, 1994), from observing organizational procedures (Rousseau & Parks, 1993) as well as through various factors that each party takes for granted (good faith or fairness, MacNeil, 1985), perception of promise regarding obligations can arise. It could also be conveyed through several other means such as policy documents, oral discussion, organizational policies and human resource practices and so on (Morrison and Robinson, 1997). Hence psychological contracts develop not just through formal mechanisms but also through one’s own interpretation of events happening around them. But as mentioned earlier, only those expectations that arise out of a promise made in some form falls under the purview of psychological contracts (Morrison and Robinson, 1997).
1.3.1. Changes in Psychological Contracts due to internal factors

Psychological contracts are dynamic and evolving (Robinson, Kraatz & Rousseau, 1994; Thomas & Anderson, 1998). Psychological contract is a dynamic process ‘that is being affirmed, altered or ignored on a day to day work experience’ (Levinson et al, 1962, p. 21). Change in psychological contracts can be motivated by internal or external factors, and may vary according to the type of employment relationship (Rousseau, 1995; Thomas and Anderson, 1998). Personal development, maturation, aging and the contract’s duration can alter a psychological contract (Rousseau, 1995). The needs of workers and organizations may change over time and new roles & responsibilities may have to replace the older ones. This is referred to as maturation.

Psychological contracts are revised throughout the employee’s tenure in the organization unlike formal employment contracts that are formed once (Rousseau and Parks, 1993; Robinson & Rousseau, 1994). Longer stay entails greater interaction between the parties which leads to elaboration, alteration of existing psychological contracts. Milward and Hopkins (1998) state that changes in job and organizational factors such as pay rises, training, benefits, bonuses etc. lead individuals to reassess their psychological contracts along the transactional/relational continuum. Changes in psychological contracts can occur due to events such as relocation, transfers, promotion, organizational restructuring and so on (Robinson & Rousseau, 1994).

Changes in newcomers’ psychological contracts during the initial period of employment have been widely researched in the early years of psychological contract research. The dynamic nature of psychological contract is especially evident during organizational socialization when rapid learning about the organization and its norms leads to change and adjustment in psychological contracts (Ashforth & Saks, 1996; Bauer and Green, 1994; Thomas and Anderson, 1998). Robinson, Kraatz & Rousseau
(1994) and Thomas & Anderson (1998) empirically validated and found support for the same.

Robinson, Kraatz and Rousseau (1994) conducted an exploratory study to analyse the changes in newcomers’ perception of mutual obligations. For this, a longitudinal research on MBA students three weeks prior to graduation and two years after they joined their employment was done. Overall they found support for the argument that new employee’s perception of employee and employer’s obligations change during the initial few years of the employment. Specifically, they found that there was an increase in employee’s perceived employer’s obligations whereas a decline in perceived employee obligations, over time. This effect was explained to be due to employee’s self-serving bias where they overestimate their contributions while underestimating the inducements provided by the employer.

Thomas and Anderson (1998) conducted a longitudinal research on new hire British army recruits at entry and at week eight, almost towards the end of their training. It was found that newcomers’ perceptions of employer obligations had changed during that period with significant increase in four out of seven expectations from the army. These four dimensions were long-term in nature, implying an ongoing development in trusting relationship between the employee and the employer. Also the knowledge that newcomers had gained during socialization had caused only a small but significant change in perception of employer’s obligations to them. They owed the small change to the short time interval between the two studies (8 weeks). The prediction that there would be change in the salience of psychological contract dimensions relating to the perception of employer’s obligations, at the end of the training period was only partially supported. This change in newcomers’ importance ratings of perceived employer obligations was towards those of organizational insiders, that is, the order was becoming more similar to that of insiders. This might be due to formal interactions of the newcomers with the insiders such as trainers, which is
an unique characteristic in the army unlike in other occupations. In general, an upward assessment of all dimensions relating to perception of employer’s obligations was noticed, meaning that over time their expectation about employers’ obligations had increased.

Vos, Buyens & Schalk (2003) saw psychological contract formation as a sense making process taking place during organizational socialization. Sense making refers to cognitive processes that individuals employ in organizational settings to cope with surprise and novelty (Louis, 1980). The sense making process happens as a cycle of events, which begins before entry when future employees form unconscious and conscious anticipations and assumptions about their future employment relationship. After entry, they go through a series of events that trigger a process through which prior expectations are changed and predictions about future expectations are revised (Louis, 1980). Applying sense making to psychological contract formation, Vos, Buyens & Schalk (2003) explained that at entry newcomers have only limited information about their employment relationship and based on their initial experiences concerning their contributions to the organization and that of the inducements provided by the organization in return, they adapt their perception of promises. This adaptation of perceived promises can occur unilaterally or reciprocally (Vos, Buyens & Schalk, 2003). If they change the perception of promises made either by the employer or the employee based on the evaluation of the reality, it is called unilateral adaptation. That is, change the perception of their contribution based on what they actually contribute or change the perception of inducements based on what they actually receive. But if they change their perception of promises made either by the employer or the employee, based on the norm of reciprocity, (that is change their perception of contribution to the employer based on perception of inducements received and change the perception of inducements made by the employer based on the perception of their own contribution to the employer) then it is called reciprocal
adaptation. Thus, Vos, Buyens & Schalk (2003) explain that to understand psychological contract formation as a sense making process, it is necessary to focus on newcomer’s perception of promises made by both parties (employee and the employer) and their evaluation of the contributions made by both parties. Vos, Buyens & Schalk (2003) further proposed that the changes in perceived promises happens more in encounter stage rather than in the acquisition stage of socialization. The encounter stage which is the first few months of entry is the stage where newcomers test their anticipations with actual experiences and cope with ‘reality shock’ (Louis, 1980; Schein 1978). Hence their sense making and adaptation of expectations is most active during this stage (Vos, Buyens & Schalk, 2003). Though individuals’ adjustment to the organization continues during sixth to twelfth month after entry, that is the acquisition stage, they are better acquainted with their organizational setting (Louis, 1980; Schein 1978), hence the uncertainty and sense making decreases, meaning that there were less changes in perceived promises due to their experiences (Vos, Buyens & Schalk, 2003).

Vos, Buyens & Schalk (2003) empirically assessed their theoretical proposition. Unilateral adaptation process was empirically supported. Newcomers adapted the perception of their contribution based on what they actually contributed and changed the perception of inducements based on what they actually received. But reciprocal adaptation was only partially supported. Newcomers adapted their promises based on perception of inducements they received from the employer. But changes in perceived employer promises did not relate significantly with perception of their own contribution except for job content. That is, those who have greater perception of their own contribution had greater perception of employer promises over time but those with lower perception of their own contribution did not have lower perception of employer promises (Vos, Buyens & Schalk, 2003). This means that even when their
perception about their contribution was low that did not deter them from expecting more from the organization (Vos, Buyens & Schalk, 2003).

Vos, Buyens & Schalk (2003) proposal that the changes in perceived promises happens more in encounter stage rather than in the acquisition stage of socialization was tested for both unilateral adaptation and reciprocal adaptation. Unilateral adaptation of perceived promises about employer inducements due to perception of inducements actually received was stronger during the encounter than during acquisition stage of socialization. This implies that encounter stage is very crucial in adapting perception of employer promises. But unilateral adaptation of employee contributions due to perception of what they actually contributed continued during both stages of socialization. This shows that they give themselves more time to adapt their promises about their own contributions (Vos, Buyens & Schalk, 2003).

Reciprocal adaptation of perceived promises to interpretations of experiences occurred to the same extent during both socialization stages. Thus reciprocal adaptation of promises is not restricted to the first few months only (Vos, Buyens & Schalk, 2003).

1.3.2. Change in Psychological contracts due to external causes.

Changes in psychological contracts can also happen due to external changes. As explained earlier, individuals form schemas about their employment relationship to understand their employment better. Schemas once fully formed are relatively stable. Even if an employee with prior experience joins a new organization, his/her schema regarding employment relationship has already been formed. Hence they would view subsequent experiences through their existing schemas and try to fit any new information from the present employment into it (Rousseau, 2001). For this reason she states that inducing change in schemas of veterans is difficult, whereas it is easy in case of a newcomer (without prior experience) as his/her schema about employment is just forming. In the process of change in the organization, not all the new information that differs from existing psychological contracts give rise to revision of contracts. It
depends on the volume, presentation and timing of the information provided by the organization and also how open the employee is receiving and processing such information (Rousseau, 2001). Beneficial aspects of change aired through credible sources can bring about a change in schemas. Schemas also change when rewards for the revision of schemas are clearly specified. Hence it is stated that schemas can change but not suddenly (Larson, 1994 as cited in Rousseau, 2001).

A brief introduction to transactional and relational contracts is provided since the empirical research on change in psychological contracts due to external changes, have mainly focused on upward or downward revisions of transactional and relational contracts. Transactional contracts are mainly short-term and involve specific economic exchanges, whereas relational contracts concentrate on building long term relationships and are open-ended and less specific exchanges (Robinson, Kraatz & Rousseau, 1994). While providing opportunities for training and development can be cited as a characteristic of relational contracts, competitive wage rate can be quoted as characteristic of transactional contracts (Robinson, Kraatz & Rousseau, 1994). The type of contracts are dealt in detail in the next section. Here it is mentioned briefly only to place in perspective the change in psychological contracts.

Empirical research regarding revisions in psychological contracts due to external changes, concentrated on the impact of the same on both transactional and relational contracts. Chaudhry, Coyle-Shapiro & Wayne (2010) undertook a longitudinal study in which they analysed the impact of cognitive factors on psychological contract revision during organizational change. Cognitive factors studied were intentionality (outcome resulting from organization’s deliberate action), foreseeability (extent to which employees’ hold the organization responsible for the outcome as its actions are viewed as causing the outcome and should have been anticipated), justifiability (extent to which the organization can justify its actions). Out of cognitive factors, intentionality led to significant downward revisions in relational
psychological contracts, whereas foreseeability led to upward revisions of the same. If
the change is perceived to be due to organization’s intentional efforts it leads to
downward revisions in relational psychological contracts. Also if the employees feel
that the organization had not anticipated such changes to occur, they may empathize
with the organization, thereby leading to upward revisions in relational contracts.
Justifiability was dropped due to low reliability, in this research. In the same research
change in contextual factors leading to revisions in psychological contracts were
analysed. But the strength of association between cognitive factors and revisions in
psychological contracts were greater than the strength of association between
contextual factors and psychological contract revisions. This shows that it is not the
contextual factors that matters; what matters more is how these contextual changes are
interpreted by the employees. Hence perceptions can be changed by explaining to the
employees why the organization has decided to undertake changes thereby influencing
the cognitive factors.

Chaudhry, Coyle-Shapiro & Wayne (2010) researched how the change in
context results in upward or downward revisions in psychological contracts. The
change in contextual factors trigger sense making that makes the employee vigilant
about mutual obligations. Contextual factors studied were novelty of the situation,
discrepancy between what one expects and what happens in reality, explicit
requirement of attention to a change event (conscious deliberation), uncertainty
regarding an event, level of personal impact of an event. As anticipated, relational
psychological contracts were affected by organizational change, whereas transactional
and balanced contracts were affected by change in contextual factors. Out of the
contextual factors, novelty led to upward revisions in employee’s relational contracts.
Upward revisions in relational contracts suggest that employees’ associate novelty
with the idea that organization is promising more obligations than earlier. Also,
novelty directs the attention of the employee to beneficial aspects of the change.
Hence not all change is viewed in a negative context. Other contextual factors did not contribute to change in psychological contracts. Hence these factors may not contribute to sense making related to the change in context.

1.4. **Types of Psychological Contracts**

Psychological contracts have been categorized into transactional and relational contracts by MacNeil (1985) and Rousseau (1990) based on focus, time frame, stability, scope and tangibility of the promise. These are seen as two ends of a continuum that represents contractual arrangements.

Transactional contracts are characterized by specific, short term economic exchanges between the employer and the employee. Specificity refers to what contribution has been exchanged for what benefit. For example pay for attendance is an example of that regard. Short term refers to a hiring specialized labor for a specific work as in the case of temporary jobs. Transactional contracts characterize workers whose contributions are less critical to the organization and when the organizations operate in highly unstable markets that require them to be flexible. Both the worker and the employer don’t hesitate to terminate the contract if it doesn’t fulfill their needs (Rousseau, 2004). Trust, commitment or attachment with the organization, are not characteristic of transactional contracts (Rousseau, 1995). Transactional contracts shift the risk of economic uncertainty from the employer to the employee. If there are few employment opportunities elsewhere, the situation of the employee is even worse.

Relational contracts on the other hand, are characterized by open-ended, economic and noneconomic agreements focused on maintaining the long-term relationship between the employer and the employee. Hiring employees at entry level, providing them with opportunities, training and developing them to meet future challenges fall within the purview of relational contracts (Rousseau, 1990). Employees’, who hold relational contract with the organization, internalize the
company values and identify themselves with the organization through socialization, promotion and mentoring (Rousseau, 1995). When employees holding relational contracts perceive a breach they tend to remedy the situation to maintain the relationship. If that’s not possible, then it results in serious breach of trust and the relationship itself. When employers hold relational contracts with their employees, they tend to absorb more risk arising out of economic uncertainties, thereby protecting them from economic downturns (Rousseau, 2004). However, it is difficult to assess the type of contract an employee holds. A person’s psychological contract may not depend on the employment status. A part time employee may hold relational contract whereas a full time employee may hold a transactional contract (Rousseau, 2004). It all depends on the beliefs the employee develops. If there is agreement between the employer and the employee on the type of contract the employee holds, then the satisfaction and the performance of the employee is greater (Rousseau, 2004). If the employee holds a transactional contract while the organizational agent perceives it to be relational, then the mismatch proves costly.

Existence of transactional and relational contracts were empirically validated. From patterns of employee and employer obligations from new hire recruits and human resource managers of several firms respectively, Rousseau (1990) found that distinct employment relationships’ suggesting transactional and relational contracts exists. Robinson and Morrison (1995) by factor analysis found that two factors emerged from Rousseau’s (1990) set of six obligations and the items in these two factors corresponded exactly to her transactional relational division. Similarly, Robinson, Kraatz & Rousseau (1994) based on factor analysis found that both employee and employer obligations can be categorized into transactional and relational obligations. Milward and Hopkins (1998) in a sample of British service sector employees found that two distinct types of psychological contracts (transactional and relational) were identifiable from employee responses, confirming
the two types of contractual orientation suggested by Rousseau (1989, 1990 & 1995). They also found that these two types were inversely related, meaning higher the relational orientation lesser the transactional orientation and vice versa. This supports the argument that these two orientations lie at opposite ends of bipolar continuum (Milward & Hopkins, 1998). They do caution that psychological contracts in reality would not be in just one orientation rather be in a combination of both orientations in a dynamic way.

In addition to transactional and relational contracts, Rousseau (2000) came up with two other types of contracts namely balanced and transitional contracts. Balanced contracts combine features of both transactional and relational contracts. ‘These contracts combine the open-ended time frame and mutual concern of relational agreements with the performance demands and renegotiation of transactional contracts’ (Rousseau, 2004, p122). Organization’s obligations to the employee involve career support, training and development in case of balanced contracts (Chaudhry, Coyle-Shapiro & Wayne, 2010) for which they expect the employee to be flexible and willing to adjust during troubled times. The important aspect of balanced contracts is the career development that ensures the marketability of the employee (Rousseau, 2000). Transitional contract on the other hand is one that occurs when the organization is undergoing change and transition. As a result of this, both the employee and employer mistrust each other. Due to change and transition, employee is uncertain regarding his obligations to the firm and employer’s future commitments to him. Also he/she expects fewer returns for his contributions. Due to the dynamic environment the organization is in, it has also brought about changes that has reduced employee’s wages and benefits thereby affecting the employee’s quality of work life (Rousseau, 2000).

Coyle-Shapiro & Kessler (2000) in their research reported that three factors emerged from their psychological contract items. Those were transactional, relational
and training obligations in contrast to Rousseau’s (1990) two psychological contract factors. They suggested that training falls neither under the purview transactional or relational contracts, but is a distinct component of psychological contracts.

When the transactional or relational contracts are breached, the resulting breach will take one of the two forms, economic or social breach. In economic breach, individual suffers and economic loss as a result of breach, whereas in social breach the individual ‘experiences social embarrassment or suffers a loss of face or reputation consequent to the broken promise’ (Ho, Weingart & Rousseau, 2004, p.280). Again, response to the breach will depend on the type of breach.

Kickul & Lester (2001) came up with a four factor model of psychological contracts. The four factors identified by them were organizational rewards, organizational benefits, autonomy & control and growth & development. Extrinsic components of psychological contracts out of these factors were organizational rewards and organizational benefits, whereas the intrinsic components were autonomy & control and growth & development.

Psychological contract components focus on intrinsic aspects of the job such as growth and development in the job, freedom to be creative etc., while other components focus on extrinsic aspects of the job such as pay, benefits etc., (Kickul & Lester, 2001). Based on the focus, they divided psychological contracts into four factors, autonomy & control and growth & development were the factors corresponding to intrinsic focus whereas organizational benefits and organizational rewards correspond to extrinsic focus. Based on the type of breach, they analysed the reactions based on individual differences.

De Vos, Buyens & Schalk (2003) and Mor-Barak (1995), in line with previous research, distinguished contract breach into two types, namely social and generative. Social breach refers to the cognition of an employee that the organization did not
fulfill its social obligations, including a challenging job, a good atmosphere at work, and recognition for delivered performance (e.g., Bal, Chiaburu, & Jansen, 2010).

Generative breach refers to the employee perception of an organizational failure to deliver the opportunity to share the knowledge and experiences and to transmit ideas and values to others in the organization (Mor-Barak, 1995).

Recently, Bal, Jansen, Van Der Velde, Lange and Rousseau (2010) came with a new classification of psychological contracts. Based on Berg and Wiebe (1993) classification of resources in workplace exchanges, they classified psychological contract obligations into three dimensions, namely economic, socio-economic and developmental. The judgment about the organization regarding the extent to which it has lived up to the promises made with regard to, money and goods (salary, benefits etc.) is economic fulfillment, providing support and socio-emotional concern is socio-economic fulfillment, providing employees with advancement and standing in the organization is developmental fulfillment (Bal, Chiaburu & Jansen, 2010).

Having seen the types of psychological contracts dealt in research, salient studies on their antecedent and consequences are presented in the following section, to understand the nature of psychological contracts.

1.4.1. **Predictors of types of Psychological Contracts.**

Raja, Johns & Ntalianis, (2004) analysed the relationship between the personality types of individuals and the types of contracts that they would form. They found that highly conscientious individuals and those who had high self-esteem were most likely to form relational contracts as they have more concern for task achievement than with economic rewards. Also, individuals who were highly neurotic and who were very sensitive to equity situations formed transactional contracts and were unlikely to form relational contracts. Neurotic individuals characterized by high anxiety and mistrust are not likely to engage in long term commitments and hence the
result. As far as employees with high equity sensitivity are concerned, they place more emphasis on tangible extrinsic rewards, which explains their inclination in forming transactional contracts. In addition, it was found that externals were unlikely to form relational contracts as they tend to form contracts that maximize outcomes in short-term. Though extroverts seek economic rewards, they realize that it cannot offer opportunities for gaining power or status, hence they are unlikely to form transactional contracts (Raja et al., 2004).

Milward and Hopkins (1998) found that in a sample of British service sector employees, psychological contracts of those in managerial/professional jobs were found to be more relational in orientation than those in nonexecutive or skilled manual jobs, whose psychological contracts were more transactional in orientation. Greater the relational orientation of contracts, greater was the job and organizational commitment whereas greater the transactional orientation lesser was the job and organizational commitment. Permanent employees formed more relationally oriented psychological contracts than the temporary employees. This is in line with Rousseau’s (1990) description of transactional and relational contracts. Full timers were more likely to develop a relational orientation to the organization than part-timers. Job and organizational tenure was positively related to relational orientation and negatively related to transactional orientation meaning that greater time spent in the organization leads to repeated cycles of contributions and inducements and greater the chances of developing relationally oriented psychological contracts. Those who have established relational contracts were more likely to put in that extra effort for the organization, as evidenced by number of extra unpaid hours put in by those employees.

Rousseau (1990) found that longer the employee intends to stay with the organization greater is the chance of him/her to form relational obligations with the employer. Careerism, where the new employee views the current employment as a mere stepping stone to other firms (Rousseau, 1990) was negatively related to
perceived relational contract and positively related to perceived transactional contract. It implies that new hires who view their employment in an opportunistic manner are more likely to form transactional contracts rather than relational contracts. Thus, perception of employee and employer obligations of new hires depends on their career aspirations and their intentions to stay with the organization (Rousseau, 1990).

1.4.2. Differential Outcomes based on the nature of contracts

As stated earlier, transactional contracts lay emphasis on short term monetary exchanges, whereas the emphasis of relational contracts is on establishing a long term relationship (Rousseau, 1990). Millward and Hopkins (1998) found that relational contracts related positively to job commitment, organizational commitment and expected job tenure while transactional contracts related negatively to the same. Similar result was exhibited by Raja et al.,(2004) in their research, who found that that relational contracts were negatively related to intentions to quit and positively related to job satisfaction and affective commitment while transactional contracts was found to be positively related to intentions to quit and negatively related to job satisfaction and affective commitment. Those holding relational contracts owing to their relationship with the organization were satisfied and committed and had lower intentions of leaving, while those holding transactional contracts viewed their relationship in a short term and narrow focus, hence had intentions to quit and were less satisfied and committed.

Grimmer and Oddy (2007) in their research in Australia found that participants were more likely to have relational-type expectations regarding their employment than transactional expectations. Positive correlation between relational scores and commitment & trust indicated that those holding relational expectations tend to be more committed and trusting of their organization.
1.5. Psychological Contract Fulfillment

Psychological contracts are based on Social Exchange Theory (Blau, 1964), which is dependent on the norm of reciprocity (Gouldner, 1960). That is, individuals engage in social exchanges with the expectation that the other party would reciprocate to their actions. Although the exact nature of exchange relationship is not fully specified in advance, general expectation of reciprocity guides the relationship (Suazo, Turnley & Mai, 2005). This creates mutual obligations over time (Bal, De Lange, Jansen & Van Der Velde, 2008). They seek a fair and balanced relationship in social exchanges (Suazo, 2009). In an organizational context, employees expend their ability, put in their effort for which they expect the organization to pay, value their contribution, provide career growth opportunities etc.

Psychological contracts are an employee’s belief about the mutual obligations between the employee and the employer, that is the perception of what they owe the organization and what the organization owes them in return (Rousseau, 1995). When the employee perceives that the organization has adequately fulfilled its promises to him/her, then it results in psychological contract fulfillment. As per Social exchange theory (Blau, 1964), when individuals feel valued and respected they are likely to reciprocate the same. Hence when employees perceive that the organization has fulfilled their obligations, they are likely to reciprocate with favorable job attitudes and behaviours (Coyle-Shapiro & Conway, 2005).

1.5.1. Predictors of Fulfillment.

Two organizational processes namely, meritocracy and equity perceptions both related to the concept of procedural justice, were analysed as antecedents to psychological contracts (Flood, Turner & Ramamoorthy, 2001) in a sample of knowledge workers from Ireland. Meritocracy is defined as the degree to which an employee perceives that their organization reward employees for their performance
and promotions are based on merit rather than any other forms such as nepotism or seniority. And equity perceptions refer to the extent to which the employees perceive that they have been fairly rewarded for their effort and responsibilities (Adams, 1965).

Three psychological contract variables namely, met expectations, obligations to contribute and obligation to conform were analysed. Met expectations, as the name implies refers to their expectations being met. They had hypothesized that met expectations would lead to obligations to contribute and obligations to conform. In general, they had hypothesized that the two organizational processes, meritocracy and equity perceptions would lead to three psychological contract variables. Results revealed that meritocracy impacted two of the three psychological contract variables, met expectations and obligations to conform while equity perceptions impacted only met expectations and not the other two contract variables. Thus knowledge workers expect the organization to reward them on the basis of merit and performance. This fulfills their expectation and they perceive that they are obliged to conform to norms. They also expect the organization to distribute outcomes fairly and if organization abides by it they feel that their expectations have been met or fulfilled. Also, met expectations led to both obligations to conform and obligations to contribute. When employees perceive that their obligations have been met, they feel more obligated to contribute to the organization and conform to organizational norms and values.

1.5.2. Work outcomes of Fulfillment.

Coyle-Shapiro and Kessler (2002a) explored reciprocity in the exchange relationship between the employee and the employer using the psychological contract framework. In a longitudinal study conducted on British public sector employees, they found that employees reciprocate to psychological contract fulfillment by the employer, by upward adjustment of their obligations to their employer and by fulfilling those obligations. Employees also anticipating future employer obligations, discharge their obligations as way of creating a positive balance on which they trust
the employer to respond. In a similar manner, managers respond to employees’ fulfillment of their obligations, by upward adjustment of perceived employer obligations to the employee and fulfilling the same. This result confirms that psychological contracts are exchange relationships and this relationship is maintained through repetitive cycles of contributions and inducements. One party’s perception of the other party’s obligations is dependent on the behaviour of each party. While the managers believed that the employee perceive his obligations and fulfills those obligations on the basis on anticipated inducements, the employees fulfilled their obligations more on the basis of fulfillment of obligations by the employer rather than on anticipated benefits.

Coyle-Shapiro and Kessler (2002b) found that older workers held lesser expectations from the employer and they received fewer inducements from the employer and in general reported greater commitment towards the organization. The anticipation of future inducements is more important in employee’s willingness to engage in Organizational Citizenship Behaviour (OCB) than the influence of present inducements (Coyle-Shapiro, 2002). That is proactive reciprocation in terms of engaging in OCB, expecting future inducements was more prominent than reactive reciprocation to present inducements.

Contract status was found to be an important attribute in how employees view their exchange relationship (Coyle-Shapiro & Kessler, 2002a). Contingent employees expected and received fewer inducements than their permanent counterparts. It is so because they can’t expect much in terms job security, opportunities for career development or skill development. As a result of which they reported lower commitment to the organization and exhibited less OCB behaviours than the permanent employees. But their perception about organizational support was higher when compared to traditional employees as they are more tolerant of the
organizational policies owing to their shorter organizational tenure (Coyle-Shapiro & Kessler, 2002a).

Psychological contract fulfillment with respect to transactional, relational and training obligations and their impact on work outcomes were studied (Coyle-Shapiro & Kessler, 2000). Fulfillment of psychological contracts had a positive effect on perceived organizational support (on all three dimensions), organizational commitment (transactional and training obligations) and OCBs (training obligations).

The relationship between psychological contract fulfillments and performance was examined (Turnley, Bolino, Lester & Bloodgood, 2003). In general, psychological contract fulfillment was positively related to all three forms of performance namely, in-role performance, citizenship behaviour towards the organization and co-workers. Specifically, two dimensions namely pay and supportiveness of the employment relationship representing transactional and relational components of psychological contracts were examined. Psychological contract fulfillment with regard to supportiveness of the employment relationship that represents the relational dimension of contracts had a significant relationship with in-role performance, citizenship behaviour towards the organization and co-workers. But psychological contract fulfillment with regard to pay representing the transactional dimension of contracts did not hold a significant relationship with any of the performance measures. This implies that fulfillment of relational obligations, has a stronger impact on the performance of employees than the fulfillment of transactional obligations. They also found that psychological contract fulfillment is more strongly related to citizenship behaviours directed towards the organization than to citizenship behaviours directed at fellow employees. The reason being, they reciprocate the fulfillment of obligations by the organization by indulging in organizationally directed citizenship behaviours. Thus fulfillment of psychological contracts leads to better in-role and extra role performance.
Grimmer and Oddy (2007) examined the impact of psychological contract fulfilment on organizational commitment and trust and the mediating effect of transactional and relational contracts in this relationship. This study was conducted in Australia and the participants were 90 MBA students who had prior full-time work experience. Analysis revealed that perceived fulfilment of expectations was positively related to commitment and trust. Relational scores mediated the effect of fulfilment of expectations on organizational commitment and trust, but transactional scores did not. This indicates that effect of fulfilment on commitment and trust would depend on the type of contract one holds such that those holding relational contracts are more affected than those holding transactional contracts.

1.5.3. Perception of Fulfillment from Employer and Employee Perspectives.

There are researchers who argue that two parties constitute the employment relationship, and neglecting the perception of employer or its representatives will not help in comprehensive understanding of employment relationship (Guest, 1998). In keeping with this view, few researchers have considered both the employee and the employer’s perspectives regarding mutual obligations in their research (Coyle-Shapiro & Kessler, 2000; Lester, Turnley, Bloodgood & Bolino, 2002; Tekleab and Taylor, 2003). The difference in perception regarding the fulfillment of psychological contracts between the employee and the manager, as representative of the employer was examined (Coyle-Shapiro & Kessler, 2000; Lester, Turnley, Bloodgood & Bolino, 2002). Coyle-Shapiro & Kessler (2000) found in a sample of British public sector employees that the managers were more positive in their assessment of employer’s fulfillment of promises. Lester, Turnley, Bloodgood & Bolino (2002) found a similar result where supervisors perceived a higher degree of employee’s psychological contract fulfillment than did their subordinates. Coyle-Shapiro & Kessler (2000) had also found that managers believed that their employer had not fulfilled its obligations to the employees, to the extent to which it could do so.
While earlier researchers studied the difference in perception between employer and employee’s perception of psychological fulfillment, Tekleab and Taylor (2003) concentrated on the level of agreement between manager’s and employee’s perception of employee’s and organizational obligations, and the factors contributing to it. It was found that manager’s perceived lower level of employee obligations to the organization than what the employees did. In simple terms, employee’s perception of what they owed the organization was greater than manager’s perception of what the employees owed. However the two parties did not differ much in the perception of the organization’s obligations to the employees.

In the same research, employee’s tenure with the manager and the quality of Leader-Member Exchange (LMX) relationships were found to be predictors of psychological contract fulfillment. Employee’s tenure with the manager predicted agreement of employee’s obligations by both the parties. That is, longer the tenure together greater is the chance of sharing information regarding obligations which leads to an agreement of employee’s obligation by both the parties. But employee’s tenure with the manager did not account for agreement of organizational obligations by both parties. Both the parties had similar perception of organizational obligation irrespective of their tenure together. LMX reported by the manager predicted agreement on both employee’s obligations and organizational obligations. Higher quality of LMX as perceived by the manager would result in better information sharing leading to agreement on reciprocal obligations. Manager’s perception of organizational obligations towards the employee increased as the manager’s perception of quality of LMX relationship with the employee improved. In contrast, LMX reported by the employee did not predict an agreement of reciprocal obligations. Thus LMX reported by the manager is more predictive of the agreement of between parties regarding mutual obligations.
Psychological contract fulfillment was found to contribute to job satisfaction, work life balance and organizational commitment (Guest & Conway, 2004). The flip side of psychological contract fulfillment is psychological contract breach, in which, the employee perceives that the organization has not fulfilled its promises to him/her. This leads to unfavorable work attitudes and behaviours in employees. While chapter two deals in detail about psychological contract breach and its effects at the workplace, the following sections in this chapter emphasizes the need to understand psychological contract breach better.

1.6. An Introduction to Psychological Contract Breach

Recent times are replete with instances of psychological contract breach by large corporates. A few examples are cited below.

Yahoo CEO Marissa Mayer had banned working from home. Her decision for Yahoo employees has made “work-from-home” a much-debated topic across the world. Her argument was about workplace creativity. In the highly confidential Yahoo memo, the company said, "To become the absolute best place to work, communication and collaboration will be important, so we need to be working side-by-side. That is why it is critical that we are all present in our offices. Some of the best decisions and insights come from hallway and cafeteria discussions, meeting new people, and impromptu team meetings. Speed and quality are often sacrificed when we work from home” (Businessline, March 7, 2013).

Kingfisher Airlines whose flights were grounded since October, 2012 has not paid salary to its employees since June 2012. Only in April it has started remitting two months salaries to its employees, who have not been paid for the last 10 months. As a result 70 protestors including pilots, engineers, ground staff and cabin crew staged a silent protest ahead of the IPL match involving Royal Challengers Bangalore team,
owned by liquor baron and airline promoter, Vijay Mallya (NDTV Sports, April 04, 2013).

Students were hired by HCL Technologies while they were in their final year, but not called for jobs after they passed out in 2012. They were given Letter of Intents (LoIs) while they were in the final year. There were around 5000 of them facing a similar fate. They took to the streets to express their grievance but the company has stated that it would hire employees as per business requirements. In a latest news, HCL in its formal reply to the State Labor Department said the letter of intent (LOI) given to campus hires were not “legally binding”. The company stated that “Candidates represented/referred in the complaint were issued legally non-binding LOI whereby they were merely short-listed for suitable opportunity, which may arise with HCL, in line of job openings and demands from time to time,” the letter states. Students on their part had raised the concern that having been promised a job in HCL in the seventh semester, they had not sat for other recruitment drives of other companies and had lost crucial opportunities. While HCL has merely stated that there is no “employer-employee relationship between HCL and any candidate and in the absence of such a relationship the complainants have no locus-standi to file the complaint” (Thehindu.com, April 28, 2013).

The above cases are evidence to the fact that the employees’ trust in the organizations to provide them with the promised obligations, have been belied. In the case of Yahoo, when employees had joined the organization, work from home options had been promised to them. Once the new CEO took over, she took the decision of banning work from home. She had stated that this decision was taken as it was necessary for Yahoo to collaborate and be creative. But from the employees’ perspective, a promise made earlier was broken. The memo had subtly stated that the employees either abide by the new rule or quit. Now several hundred employees are left with no option except to relocate their home offices (The Guardian, February 25,
2013). This decision by Yahoo might raise doubts in the minds of the employees whether they are really being valued by the organization. Hence the trust with the employer also gets affected due to the broken promise. Any further move by the company under the new CEO would be viewed with suspicion, especially for employees most affected by this decision. It causes a sense of insecurity in this gloomy economic background.

With regard to Kingfisher Airlines, nonpayment of salaries is a breach of legal contract. Their employees had waited for months with the trust that when the company is back on its track, they would get their salaries. But when Vijay Mallya, owner of Kingfisher Airlines who also owns the Royal challengers IPL cricket team, was able to get players for his team handing out huge franchise amounts, the Kingfisher employees were outraged. Their question was if he had enough money to shell out for the cricket players, then why not pay his employees, who depend on the few thousands for their livelihood unlike the players who get crores endorsing products. Hence their trust on the organization was damaged and they felt betrayed by the organization. Here it becomes a case of psychological contract breach.

HCL Technologies, handed out Letter of Intents (LoIs) to students stating that they intended to hire them but later did not do so citing reasons of slow growth in IT sector. When State Labor Department (Bangalore) raised the concern with the organization, HCL stated that those LoIs were not legally binding. According to them it’s not a legal breach. But it’s a clear case of psychological contract breach. Students believed that organization would call them for employment once they finished their degree which was affirmed by the LoIs. They believed those LoIs were legally binding, but the organization has now stated it is not. Here again, students who were supposed to be the prospective employees felt cheated. Even if they get into the company at a future date, the pride of working there is lost forever which is very hard
for the company to regain. The company is going to be eyed with suspicion even by future students.

Psychological contract breach affects the employees cognitively, which in turn affects their morale and motivation. In research terms, it can be stated that psychological contract breach affects the employees work attitudes and behaviours including performance. Hence it is important for organizations to understand the negative implications of breach to avoid breach in future. The following section provides a brief glimpse of psychological contract breach in the research context.

1.6.1. Psychological Contract Breach in the Research Context

Psychological contracts as discussed earlier are a person’s perception about the mutual obligations in an employment exchange relationship (Rousseau, 1989; Raja et al, 2004). But when the employee perceives that the organization has failed to fulfill obligations to the employee, he/she feels that the organization has breached on its promise. This is called psychological contract breach. It is defined as “the employee’s perceptions regarding the extent to which the organization has failed to fulfill its promises or obligations (Zhao, Wayne, Glibkowski & Bravo, 2007, p.647). Just as psychological contracts are employee’s perception of the obligations, psychological contract breach is also an employee’s perception of how much the organization the organization has failed to honor its promises. Hence it can occur even in the absence of an actual breach (Rousseau, 1995).

The problem with psychological contract breach is that it causes deep rooted effects in the employee which is reflected in his attitudes and behaviours towards the organization. This is because general beliefs of trust and respect for the organization get affected due to breach (Rousseau, 1989). Psychological contract breach may even lead to the erosion of psychological contracts (Robinson, 1996; Rousseau, 1989).
Psychological contracts as explained earlier are based on the social exchange theory (Blau, 1964) and norm of reciprocity (Gouldner, 1960). Psychological contract breach causes imbalance in the exchange relationship (Morrison & Robinson, 1997), where the employee believes he has contributed to the exchange relationship whereas the organization has not done so. Hence to restore the balance in the exchange relationship, employees are often motivated to reduce their contribution (Turnley, Bolino, Lester & Bloodgood, 2003). Based on this, the effect of psychological contract breach on a number of work outcomes has been researched. It has been found that psychological contract breach affects employee’s attitudes and behaviours that prove detrimental to organizations.

Psychological contract breach has been found to lead to reduced job satisfaction, commitment with the organization, organizational citizenship behaviours, increased turnover intentions and deviant behaviours to name a few attitudes and behaviours affected by breach. But the effect of breach on all individuals is not the same, owing to the difference in perception between them, as shown by research. Few other researchers have found that situational variables also affect the breach outcome relationship. Understanding moderators that amplify or dampen the effect of breach on work outcomes is important in curtailing the negative impact of breach. Breach has been found to affect the work behaviours through a number of work attitudes. Research on mediating mechanisms between breach and their responses is fairly substantial. A detailed discussion on all of these aspects of breach is provided in the review of literature.

1.7. Need for the Study

Psychological contracts underlie the nature and strength of employment relationships (Shore & Barksdale, 1998). Every employee develops psychological contracts based on their perception about the mutual obligations.
Psychological contract breach is not an isolated event that occurs only to few individuals. Research has time and again revealed that psychological contract breaches are widely prevalent. Robinson & Rousseau (1994) in fact found that breach is not an exception but a norm. In a longitudinal study of newly hired MBA students in the US, they found that 54.8% reported that their employer had at some time breached the contract. As part of the same research, a qualitative survey was conducted, in which out of 209 respondents, 123 employees reported that they had experienced breach. When the areas of breach were coded, they found that breach had occurred in almost every area related to human resource management with training, development, compensation and promotion being the areas in which breach occurred very frequently. Turnley & Feldman (1998a) in their research found that 25% of their sample had reported that they received less than what they had promised.

Coyle-Shapiro & Kessler (2000) in a sample of UK public sector employees found that 89% of the employees believed that their employer had not adequately fulfilled transactional obligations, 81% believed that the employer defaulted on relational obligations while 78% of the employees reported varying degrees of breach in terms of training obligations. It can be seen that majority of the employees had experienced breach.

Conway and Briner (2002) conducted a daily dairy study on UK employees from finance sector to analyse the number of breaches that occurred on a daily basis. Results revealed that employees perceived breaches fairly frequently with 69% of participants reporting at least one broken promise over the 10 day period.

Lo & Aryee (2003) in their research found that psychological contract breach was quite prevalent in Hong Kong. Grimmer and Oddy (2007) examined the effect of psychological contract breach in the Australian context. They found that 53.3% of the participants had reported that they had experienced breach. The areas specified by them centered on the following issues, promises of potential for development,
pay/benefit issues, failure to pay for education, failure to provide for opportunity for input and being given false promises; this shows that breach has occurred on both transactional and relational elements of the contract.

Hence psychological contract breach is a widely prevalent occurrence which is not restricted to employees of a particular organization or sector or nationality as supported by research results. Wherever an employment relationship exists, psychological contracts exist. Owing to the subjective nature of these contracts, it is bound to be broken.

A greater understanding of breach would aid to cope with its undesirable effects and through the review of literature, it is attempted to gain a comprehensive knowledge of breach and the role of additional moderators and mediators in this relationship between breach and its reactions.

The intent of this research is to provide a further understanding of psychological contract breach, the mediating and moderating mechanisms through which breach affects employee’s work attitudes and behaviours.

1.8. Overview of the Remaining Chapters

In Chapter two, review of literature with regard to psychological contract breach is done, with the intent of giving an overview of its theoretical background, research done so far and the scope for further research in this area. Hence based on the review, gaps in research are identified and listed. A conceptual framework for this research is then charted out followed by the research questions.

Chapter three deals with the research methodology adopted in this research. The initial part of this chapter states the objectives of this research and the hypotheses to be tested. The latter part elaborates on the research design adopted, measures used, pilot study done, refinement of the measure, nature of the sectors from which the data
is collected, the sampling procedure adopted and an overview of statistical tests and tools used in the study.

Chapter four deals with analysis of data and presentation of results. This chapter lists the statistical tools and tests used for analysis. First, results of confirmatory factor analysis are listed, followed by construct validity of the measures and correlation between the constructs. Moderator regression results and results of indirect effect test validated with bootstrapping values follows. Path analysis analyzing the moderated – mediated effect of psychological contract breach on work outcomes is then presented.

Chapter five concludes the thesis with detailed discussion of the results, its research and practical implications. Limitations and directions for further research in this area are finally discussed.