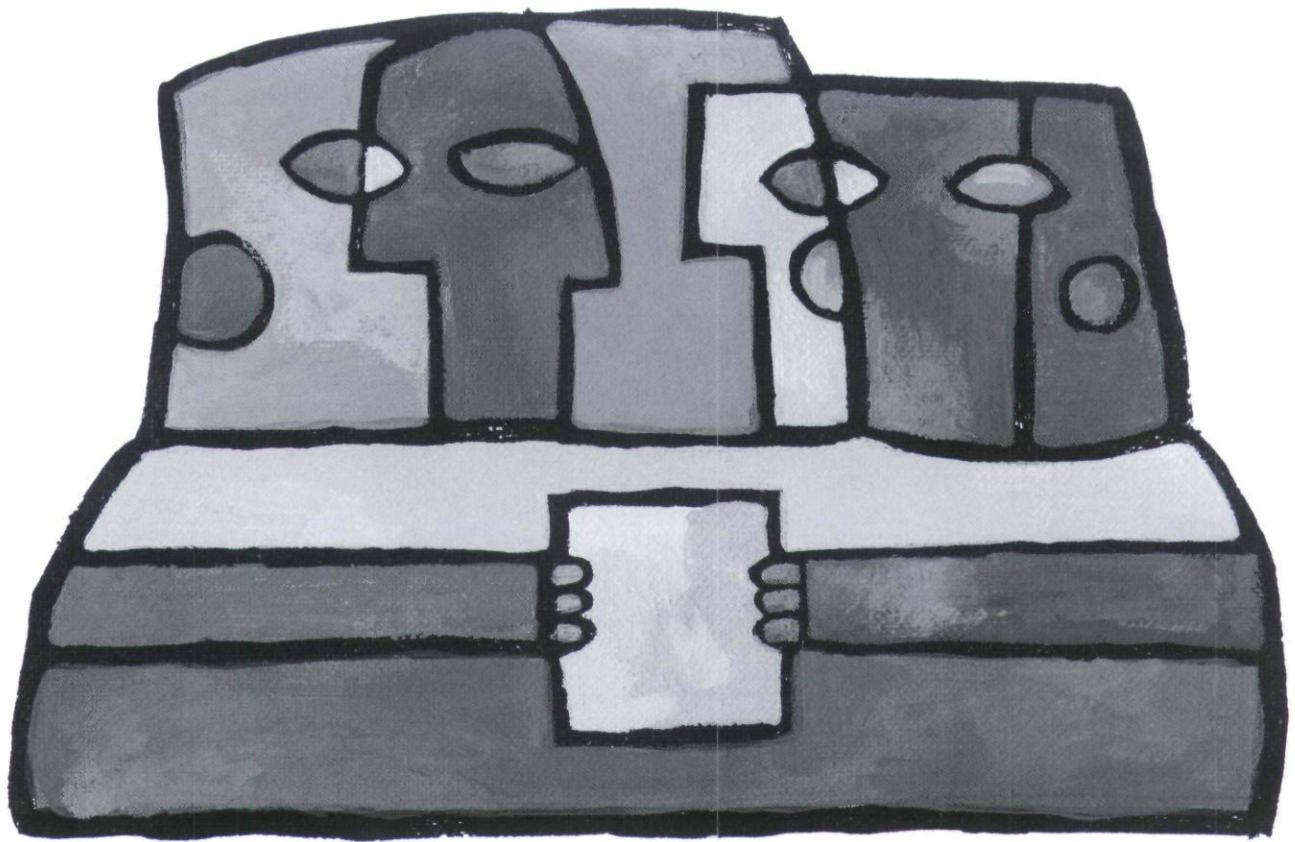


Psychological Contracts in the 21st Century:

What Employees Value Most and How Well Organizations Are Responding to These Expectations

Scott W. Lester, University of Wisconsin – Eau Claire, Department of Management & Marketing;
Jill Kickul, DePaul University Department of Management



This study examines the status of psychological contracts as we enter the 21st century. Employees identified the importance they placed on various aspects of the psychological contract and the degree to which their organization had fulfilled these obligations. Results showed that organizations were struggling to fulfill components of the psychological contract that their employees valued

most (e.g., open and honest communication). These discrepancies (between perceived importance and perceived fulfillment) significantly impacted employee satisfaction and intention to leave the organization. These discrepancies also affected employee performance, although to a lesser extent. Organizational implications and suggestions for improving psychological contract fulfillment are discussed.

The current economic and employment landscape continues to place pressure on how organizations structure, motivate, and retain their employee workforce (Cappelli, 1999; Hitt, 1998). As new markets, competitors, and technologies begin to emerge, there will be an increased need for skilled employees at every level and functional area of the organization (Neilson, et al., 2000). Employees today are often selected and recruited into an organization because their particular skills and expertise can assist the organization in achieving high standards of performance, especially in the short term. As competition for the best employees increases, managers, human resource directors, and recruiters are all looking for the right combination of inducements to attract these individuals. Gaining a better understanding of what individuals desire for their employment relationship is critical to the success of these efforts.

Psychological contracts, in general, are the set of beliefs held by an individual employee about the terms of the exchange agreement between the employee and his/her organization (Rousseau, 1989). For example, an employee may perceive that he/she has been promised competitive wages, promotional opportunities, job training, and meaningful work, and in return has promised to give the organization his/her energy, time, technical skills, and commitment. Unlike formal employee-employer contracts, the psychological contract is inherently perceptual and therefore one party's interpretation of the terms and conditions of the obligations within the contract may not be shared by the other (McLean Parks and Schmedemann, 1994; Rousseau, 1995, 1998).

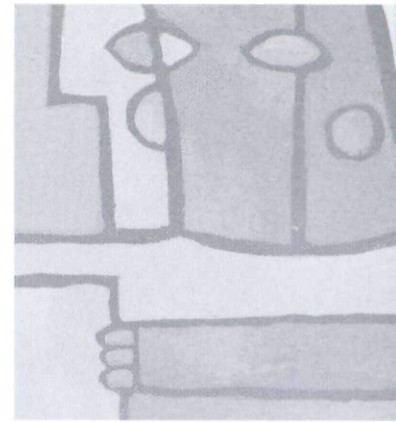
This study examines the types of inducements businesses currently offer to their employees in an attempt to attract and retain their skills and expertise. The purpose of this study is threefold. First, we examine which employer inducements (psychological contract obligations) are identified as more important by employees. Second, after identifying these "important" psychological contract obligations, we analyze employee perceptions of how well their companies are fulfilling these obligations. Third, we examine how perceived discrepancies between the importance of and fulfillment of specific psychological contract obligations affect employee reactions at work. These promises and obligations, depending on employees' perceptions of fulfillment, can act as motivators or barriers to desirable work attitudes and behaviors (Robinson, 1996; Robinson and Morrison, 1995).

By examining the psychological contract and the attitudinal and behavioral outcomes that can result when perceived promises are not fulfilled, researchers and practitioners should be able to communicate, gain perceptual agreement (regarding psychological contract obligations), and manage the employee-employer relationship more effectively. The formation of this exchange relationship begins during the recruitment and selection process and continues throughout the employee's tenure with an organization.

Earlier reviews by Argyris (1960), Levinson, et al. (1962), Schein (1965), and Kotter (1973) argue that the psychological contract is conceptually different from both a formal and implied contract in that it considers an individual's beliefs of the terms and conditions of an agreement between the individual and his/her employer. This concept of the relationship between an employee and his/her organization has been accepted and noted in many different forums, including academic journals (i.e., Guzzo, et al., 1994; Morrison and Robinson, 1997; Robinson, et al., 1994), practitioner journals (i.e., Ehrlich, 1994; Sims, 1994; Wilhelm, 1994), and management textbooks (i.e., Kolb, et al., 1995; Makin, et al., 1996; Schein, 1980).

The types of promises contained in an employee's psychological contract can be explicitly or implicitly communicated in several ways: written document, oral discussion, or organizational practices and procedures (Rousseau, 1989; Rousseau and Greller, 1994; Rousseau and McLean Parks, 1993; Sims, 1994). Because of the pervasive norms of reciprocity that are a part of any exchange agreement between an individual and his/her organization (Rousseau, 1989), an individual often expects, seeks out, and creates a psychological contract as a means for understanding and representing the employment relationship with his/her employer (Shore and Tetrick, 1994).

This research strives to assist businesses by providing information about what employees value most and how they respond when these needs are not fulfilled. This information should assist companies in their efforts to offer psychological contracts that are more in line with the exchange relationships that employees are seeking to create. Employers with proactive psychological contracts are likely to experience reduced intentions to leave the organization (by employees) because their needs are being met. Shore and Barksdale (1998) found that employees



reported higher levels of organizational support, affective commitment, and lower levels of turnover intentions when their employment relationships with their organizations were fulfilled; however, when employees perceive that their employer has failed to fulfill promised inducements, they may withhold their own designated contributions (Robinson and Morrison, 1995).

From an equity perspective, individuals try to find a balance between what they receive from the organization and their own contributions. In our study, we further examine how employees' job satisfaction, intentions to leave, job performance, and organizational citizenship behaviors can be influenced when many of their organizations' employment promises are not adequately fulfilled, especially those that are valued most by employees in today's work environment.

METHODOLOGY

Participants

Participants were 268 employees enrolled in a part-time MBA (Master of Business Administration) program at a large, Midwestern university. These students were recruited from management courses included within the graduate curriculum. Only those students who were currently employed full-time by an organization were included in the study. Of the 268 participants, 51.7 percent were male and 48.3 percent were female. The average age was 27.6 years. The average tenure of employees within their respective organizations was 3.4 years. Participants had worked in an average of 2.96 organizations before joining their current employer. Over 24 percent of the respondents were in supervisory positions. Participants were employed in a variety of occupational fields including: finance and banking, sales and marketing, computer science, human resources and staffing, accounting, engineering, and organizational consulting.

Overview and Procedure

All participants were told that we were conducting research to better understand the relationship that an employee has with his or her organization. In their questionnaire, employees were asked to provide their beliefs about which psychological contract obligations were most important and how well their organization had

fulfilled its obligations. Participants also assessed their job satisfaction, their behavioral intentions (intent to leave the organization), and performance on the job. Finally, to better understand some of our findings, we collected qualitative data from our respondents. Employees were asked a series of open-ended questions, including: "How has unfulfilled employer promises influenced your work performance and decision to remain with the organization?" and "From your perspective, how could your organization improve the way it has communicated its inability to fulfill its employment promises?"

Measures

Psychological Contract Ratings. Participants were asked to indicate those obligations that their organization had promised to them. This set of 38 items was adopted from Kickul (in press)

and includes the following promises: competitive salary, health care benefits, adequate equipment to perform job, challenging and interesting work, and increasing responsibilities. In interviews with HR managers from 13 engineering, accounting, and manufacturing organizations, Rousseau (1990) found many of these items to be the most common promises mentioned by employers during the recruitment process. Participants were informed that the 38 employer obligations may have been communicated to them explicitly

(verbally or in writing) or implicitly (simply implied through other statements or behaviors).

Participants were asked to indicate the importance they attribute to specific psychological contract obligations using a five-point scale (1 = "not at all important"; 5 = "extremely important"). After checking off the psychological contract obligations their companies had made to them, respondents were asked to indicate how well their organizations had fulfilled each of these marked promises. They rated the fulfillment of these promises using a five-point Likert scale (1 = "not at all fulfilled"; 5 = "very fulfilled"). Psychological contract discrepancy scores were calculated by subtracting the employees' fulfillment ratings from their importance ratings for each psychological contract item.

Intention to Leave the Organization. Intention to leave the organization was measured using a three-item scale from Meyer, et al. (1993) that

From an equity perspective, individuals try to find a balance between what they receive from the organization and their own contributions.

assesses an employee's tendency to continue as an employee of the organization. Participants were asked how often they think about quitting their organization, how likely it was that they would search for a position with another organization, and how likely it was that they would leave the organization in the next year.

Responses to these three items were made on a seven-point scale (1 = "strongly disagree"; 7 = "strongly agree"). The internal consistency reliability (Cronbach's alpha) was .85 for this scale.

Job Satisfaction. Job satisfaction was measured with the overall job satisfaction subscale from the Michigan Organizational Assessment Questionnaire (MOAQ; Cammann, et al., 1975). This three-item subscale gives an indication of an employee's affective response to his or her job. Participants responded to these statements using a seven-point Likert scale (1 = "strongly disagree"; 7 = "strongly agree"). Cronbach's alpha for this subscale was .86.

In-Role Job Performance and Organizational Citizenship Behavior Toward the Organization. Items to measure in-role performance and organizational citizenship behavior toward the organization (OCBO) were derived from Williams and Anderson's (1991) study. In-role performance pertains to assigned responsibilities associated with an individual's formal employment contract. Organizational citizenship, on the other hand, is defined as "individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and that in the aggregate promotes the effective functioning of the organization" (Organ, 1988; p. 4). Because of its impact on an organization's ability to function successfully, citizenship behavior is an outcome of interest in this study. OCBOs are particularly relevant in this investigation because employees are responding to perceived inequities in their relationships with their organizations. Employees were asked to rate themselves on each of the performance and OCBO items using a seven-point Likert scale. The internal consistency of these two scales were .79 and .72, respectively.

RESULTS

The first set of analyses examined the levels of importance placed on different aspects of the psychological contract. We calculated the mean importance ratings for the 38 psychological contract items and found that 32 of the items were rated on average as "very important" or

"extremely important." The means and standard deviations for these items are presented in descending order in Table 1.

Subjects also assessed the level to which they felt their organization had fulfilled its obligations in each of these psychological contract areas. The second group of analyses examined the differences between employees' importance ratings and fulfillment ratings. Means were calculated for the psychological contract discrepancy scores (discrepancy scores = importance ratings – fulfillment ratings). The means and standard deviations for each of the 32 psychological contract items are presented in descending order in Table 2.

Correlations between the psychological contract discrepancy scores and the four dependent measures (intent to leave, job satisfaction, performance, and organizational citizenship toward the organization) were computed for each of the 32 items. Results showed that psychological contract discrepancies were positively related to intentions to leave the organization for 21 of the items. Discrepancy scores were negatively related to job satisfaction for 23 of the 32 items. Results were not as robust for the behavioral outcomes. Psychological contract discrepancies were negatively related to employees' in-role performance for four of the items and negatively related to employees' OCBOs for two of the psychological contract items. These results are presented in Table 3. The individual items appear in the same order as Table 2.

DISCUSSION

The current investigation looks at three issues of practical importance regarding the perceived psychological contract that exists between employees and employers today. The first issue is the extent to which employees place importance on various aspects of the psychological contract. Mean importance ratings revealed that employees placed a high level of importance on all areas of the contract (i.e., 32 of the 38 psychological contract items had an average of 4.00 or greater on a five-point scale).

This study examines the psychological contract at the item level of analysis. Similar to Kickul (in press), participants responded to a global measure that tapped a wide range of employer promises and obligations. By keeping the analyses at the item level, we accomplished two major objectives: (1) it allowed us to examine which psychological contract obligations are identified by employees as more important, and

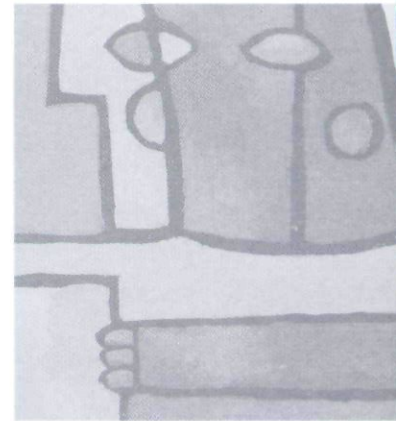


TABLE I

Psychological Contract Importance Items

Psychological Contract Item	Mean	Standard Deviation
Opportunities for Promotion and Advancement	4.66	0.56
Trust and Respect	4.64	0.57
Open and Honest Communication	4.62	0.60
Fair Treatment	4.57	0.63
Challenging and Interesting Work	4.52	0.67
Competitive Salary	4.51	0.66
Health Care Benefits	4.50	0.79
Competent Management	4.46	0.69
Support from Management	4.46	0.66
Meaningful Work	4.43	0.71
Pay and Bonuses Tied to Performance	4.39	0.72
Opportunities for Personal Growth	4.39	0.70
Opportunity to Develop New Skills	4.36	0.70
Constructive Feedback on My Performance	4.33	0.77
Competent Co-Workers	4.33	0.72
Consideration of Employees' Needs	4.31	0.69
Clear Goals and Direction	4.31	0.77
Enough Resources to Do the Job	4.29	0.71
Vacation Benefits	4.29	0.78
Recognition of My Accomplishments	4.28	0.78
Retirement Benefits	4.27	0.95
Adequate Equipment to Perform Job	4.24	0.82
Continual Professional Training	4.24	0.74
Increasing Responsibilities	4.21	0.78
Equal Opportunity for All Employees	4.20	0.95
Participation in Decision Making	4.16	0.85
Job Security	4.16	0.93
Cooperation and Support from Co-Workers	4.14	0.78
Tuition Reimbursement	4.13	1.18
Safe Work Environment	4.12	0.98
Freedom to Be Creative	4.05	0.94
Flexible Work Schedule	4.02	0.89

(2) it allowed participants to assess psychological fulfillment for only those obligations that were promised by their employer. By having participants assess fulfillment for only those perceived promises made by their organizations, the scale was able to capture accurately those obligations that were meaningful and specific to each employee's contract.

Most agree that the psychological contract is multidimensional (Robinson, 1996; Rousseau, 1995), as evidenced by the wide variety of psychological contract items in this study. Although there is little consensus on how many distinct psychological contract dimensions exist (Roehling, 1996), most conceptualizations of this construct acknowledge that some contract components focus on intrinsic outcomes (that relate to the work environment and the job itself, e.g.,

freedom to be creative) while other contract components focus on extrinsic outcomes (that relate to the consequences of completing the job, e.g., competitive salary). We make the distinction between intrinsic and extrinsic outcomes as we discuss the findings because it provides a nice cognitive framework for organizations to use as they think about employee wants and more effective ways to fulfill these perceived obligations.

Although employees were concerned about both intrinsic outcomes and extrinsic outcomes, eight of the ten items that received the highest employee importance ratings dealt with intrinsic outcomes. These items addressed issues such as open and honest communication, managerial support, and challenging and interesting work.

This suggests that employees are increasingly aware of the non-monetary rewards that companies

TABLE 2

Psychological Contract Discrepancy Items

Psychological Contract Item	Mean	Standard Deviation
Competent Management	2.19	1.83
Open and Honest Communication	2.10	1.75
Pay and Bonuses Tied to Performance	2.06	1.78
Meaningful Work	2.04	1.85
Clear Goals and Direction	2.03	1.73
Opportunities for Promotion and Advancement	2.00	1.62
Consideration of Employees' Needs	1.97	1.72
Trust and Respect	1.85	1.73
Recognition of My Accomplishments	1.84	1.91
Freedom to Be Creative	1.82	1.95
Competent Co-Workers	1.81	1.85
Constructive Feedback on My Performance	1.78	1.63
Continual Professional Training	1.78	1.88
Participation in Decision Making	1.76	1.74
Opportunities for Personal Growth	1.72	1.88
Retirement Benefits	1.65	1.79
Support from Management	1.62	1.70
Challenging and Interesting Work	1.61	1.70
Opportunity to Develop New Skills	1.59	1.82
Job Security	1.58	2.03
Fair Treatment	1.56	1.70
Tuition Reimbursement	1.48	1.79
Cooperation and Support from Co-Workers	1.47	1.89
Competitive Salary	1.37	1.45
Health Care Benefits	1.33	1.87
Enough Resources to Do the Job	1.23	1.63
Increasing Responsibilities	1.19	1.81
Equal Opportunity for All Employees	1.18	1.91
Adequate Equipment to Perform Job	0.98	1.61
Vacation Benefits	0.95	1.72
Flexible Work Schedule	0.66	1.79
Safe Work Environment	0.64	1.84

Note: Discrepancy scores (Importance ratings – fulfillment ratings (for each psychological contract item)).

are willing to provide. This is not to say that employees do not pay attention to money; however, it does imply that employees take the socio-emotional aspects of the psychological contract very seriously (e.g., Shore & Barksdale, 1998). This implies that recruiters need to go beyond a discussion of compensation and benefits and highlight aspects of their organization that job candidates will find intrinsically satisfying.

Attraction is only one aspect of the HR challenges facing managers today. Retention is equally important. Companies are trying to hold on to their best employees in a business climate that encourages employee mobility. One mechanism for retaining top employees is the fulfillment of psychological contract obligations. The second

part of this investigation examined the extent to which employees perceived that their employer was upholding their psychological contract promises. To identify potential areas of conflict, we examined how employees' fulfillment ratings differed from their importance ratings (across the different psychological contract areas).

An examination of the mean discrepancy scores for each psychological contract item showed that a vast majority of the items with larger discrepancy scores were the same items that employees rated as the most important aspects of the psychological contract. Specifically, 15 of the 20 items ranked highest in importance were also shown to have one of the 20 highest discrepancy scores (between importance and

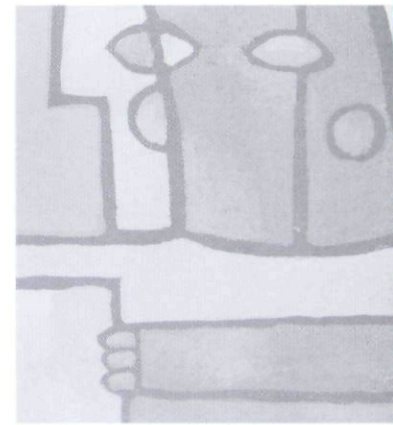


TABLE 3

Correlations Between Psychological Contract Discrepancy Items and Employee Attitudes and Performance

Psychological Contract Item	Intent to Leave	Job Satisfaction	Performance	OCBO
Competent Management	.21**	-.24**	-.03	.01
Open and Honest Communication	.18**	-.32**	.11	.01
Pay and Bonuses Tied to Performance	.15*	-.20**	-.06	-.09
Meaningful Work	.23**	-.28**	-.06	.07
Clear Goals and Direction	.24**	-.28**	.04	.00
Opportunities for Promotion and Advancement	.25**	-.34**	-.06	.04
Consideration of Employees' Needs	.17**	-.18**	-.07	.02
Trust and Respect	.18**	-.32**	.08	.00
Recognition of My Accomplishments	.10	-.30**	-.11	-.08
Freedom to Be Creative	.08	-.18**	-.15*	.00
Competent Co-Workers	.01	-.11	-.05	.08
Constructive Feedback on My Performance	.22**	-.33**	-.02	-.07
Continual Professional Training	.27**	-.20**	.01	.05
Participation in Decision Making	.12*	-.22**	-.05	.07
Opportunities for Personal Growth	.23**	-.26**	-.07	-.03
Retirement Benefits	.15*	-.04	.05	-.10
Support from Management	.21**	-.29**	-.01	-.07
Challenging and Interesting Work	.22**	-.33**	-.08	.03
Opportunity to Develop New Skills	.14*	-.25**	-.09	-.05
Job Security	.09	-.11	-.07	-.04
Fair Treatment	.19**	-.28**	-.02	-.03
Tuition Reimbursement	.13*	-.01	-.17**	-.13*
Cooperation and Support from Co-Workers	.00	-.16*	-.06	-.06
Competitive Salary	.13*	-.15	-.16**	-.12*
Health Care Benefits	.19**	-.08	.10	-.07
Enough Resources to Do the Job	-.02	-.11	-.03	-.08
Increasing Responsibilities	.18**	-.31**	-.11	.04
Equal Opportunity for All Employees	.07	-.19**	-.15*	-.09
Adequate Equipment to Perform Job	.06	-.10	-.04	-.07
Vacation Benefits	.22**	-.17**	.07	.00
Flexible Work Schedule	.02	-.07	.04	-.04
Safe Work Environment	.02	-.14*	.05	.05

* $p < .05$ ** $p < .01$;

fulfillment levels). This suggests that the psychological contract obligations that employees value most may also be the obligations that companies are having the most difficulty fulfilling.

One area of particular concern is the reported failure of organizations to provide open and honest communication to their employees. This item's discrepancy score is especially problematic because it suggests that organizations are susceptible to perceived psychological contract breaches across a variety of areas because communications about what employees can expect (in terms of employer obligations) are not being perceived as effective. The largest discrepancies

appear in areas of the psychological contract that focus on intrinsic outcomes and relational issues. This implies that supervisors and other organizational representatives need to be more cognizant of and responsive to employees' desires for things such as meaningful work, recognition, creative freedom, and opportunities for personal growth.

Another noteworthy finding is that employees perceived a lack of competent management. The "competent management" contract item exhibited the single highest discrepancy score. This negative perception could also lead to widespread problems satisfying other psychological contract

obligations. This finding is particularly troubling because it may often be the responsibility of an employee's manager (acting as the organization's agent) to see that the individual's psychological contract is fulfilled. If employees do not perceive managers as competent, it is likely that they will minimize or downplay their efforts to uphold the psychological contract.

Finally, this investigation examines the relationship between these psychological contract discrepancy scores and organizational outcomes. Specifically, we look at how perceived discrepancies impact job satisfaction, intent to leave, in-role job performance, and organizational citizenship behaviors. The findings show that discrepancies between perceived importance and perceived fulfillment of psychological contract obligations are positively related to intention to leave the organization and negatively related to job satisfaction. The significant increase in intention to leave will be very costly for organizations, particularly given the tight labor market that currently exists. Employees who are unhappy are likely to perceive a number of more attractive alternatives outside the organization, and the empty position created by their departure may indeed be difficult to fill with an equally qualified replacement.

Although discrepancy scores did not have as pervasive of an effect on performance as expected, the performance findings highlight an interesting difference in the level of tolerance that employees have for discrepancies relating to intrinsic and extrinsic outcomes. Results showed that discrepancies (between importance and fulfillment) as they relate to competitive salary, equal opportunity, tuition reimbursement, and creative freedom were negatively related to performance. Three of these four psychological contract areas deal with extrinsic outcomes. What is interesting about these three extrinsic outcomes, is that all three were in the bottom (lowest) third with regard to degree of discrepancy. This suggests that employees are much less tolerant of discrepancies between what is expected and what is received when it relates to extrinsic rewards. In other words, employees appear to alter their on-the-job performance negatively when they perceive even small discrepancies in areas such as pay. Conversely, even though they may begin to look for alternative employment, employees appear less likely to alter their performance efforts when they see discrepancies between anticipated and realized intrinsic

outcomes (such as the freedom to be creative). Discrepancies in relation to competitive salary and tuition reimbursement also negatively affected levels of organizational citizenship behavior.

Our qualitative data provide further clarity regarding how many of the unfulfilled employment promises influenced employees' motivation and behavior at their organizations. For example, many of the employees mentioned the following:

"It (unfulfilled employment promises) has stifled my 'creativity.' I no longer ponder ways to improve processes/increase efficiency. I work on this aspect of my job minimally, because change is often not well accepted."

"My satisfaction was influenced immensely. I am not as excited about my job anymore and don't put in the 110%."

"I spend less time (10% to 15%) on process improvement, when I should be spending a significant amount of time (30%)."

"Reduced production, motivation, dedication, drive to make sure the job gets done right."

"These (unfulfilled employment promises) have contributed in the range of 90% of the reason I am making a career change."

"No reward for hard work—no motivation or drive—production suffers. They have made it easy for me to want to leave the organization and try a new challenge."

"It (unfulfilled employment promises) has created burnout and a negative attitude toward customers and co-workers."

Human Resource Implications: Recruitment and Selection

Given that employees' negative attitudes and behaviors increased following a psychological contract violation, organizations may want to re-examine policies and practices that directly influence how employees formulate and create a psychological contract as a means of understanding and representing the employment relationship with their employer. One such practice that can be applied in order to manage promises made by the organization is to give realistic information (e.g., realistic job previews; Wanous, 1973) concerning an employee's position within the company. This information should be made salient to the individual throughout the employee's tenure in the organization, beginning during the recruitment and selection process. Here are the views of several employees who commented



on how organizations can improve their selection process and the management of employment promises:

“All the promises should be explained in detail in order to avoid misunderstandings and future disappointments.”

“Be more forthright with explanations of why things can’t be as promised or simply don’t promise.”

“Streamline the hiring process (e.g., include within the hiring packet all the benefits and non-benefits).”

From an organizational cost saving perspective, the implementation of realistic job previews can be quite substantial. A recent meta-analysis by Phillips (1998) found that employees who were given realistic job previews prior to hiring were less likely to leave the organization.

Phillips was also able to calculate the dollar value of utilizing realistic job previews to reduce voluntary turnover. Because the mean correlation between realistic job previews and turnover was $-.09$, she calculated that a business that has an annual job survival rate of 50 percent could make 17 fewer new hires per year per 100 retained workers if they implemented realistic job previews. By taking the estimated average cost per hire in 1996 of \$4,183, Phillips was able to calculate an organizational savings of \$71,111 in voluntary turnover costs (per 100 retained workers) as a result of using realistic job previews. Given these findings, organizations may want to re-evaluate their recruitment policies and procedures and make sure that they allow the applicant to understand fully the type of job, work-group, organization, and employment relationship they may be entering into in the near future. The costs associated with using realistic job information is minimal and could be utilized by a business to not only reduce turnover, but to also increase employee satisfaction and performance (Wanous, 1980; Phillips, 1998).

Furthermore, organizations may enhance their ability to fulfill psychological contract obligations by “targeting” highly valued psychological contract areas in their job previews. In other words, recruiters could gather information about an employee’s most valued outcomes (early in the process) and then specifically address what

the candidate can expect in that area of the employment relationship. If the company is confident in what it can offer in that area, the chances of a successful relationship are good. On the other hand, if an employee prioritizes outcomes that the organization will have difficulty providing, the organization may be better off not to hire that individual.

Along with giving employees realistic job previews, employers could also seek alternative and creative ways to understand and communicate not only an employee’s role with the organization but also the culture and expectations of the firm. Cisco Systems, Inc., a market leader in the business-to-business networking hardware industry, has been successful at recruiting individuals whom the organization calls “passive” job seekers (i.e., individuals who may not be actively looking for new employment). On the

company’s web page, a potential new hire can be connected with a current Cisco employee who works in a similar position/role in the organization. The current employee, not the trained recruiter, gives an inside view regarding the cultural expectations and work life at Cisco. Allowing current employees to discuss and convey Cisco’s expectations is not only a valuable selling tool to attract competent and talented employees, it

also gives current employees a voice in the continued growth and development of the organization. As a result of many of these recruiting innovations, turnover is low (at 6.7 percent annually) compared to the industry standard of 18 percent. In addition, turnover is even lower among acquired company employees, at 2.1 percent, compared to the industry average of more than 20 percent (Neilson, et al., 2000).

Managerial Communication

Because today’s economic and employment landscape has placed increased pressure on how firms structure and organize their business operations, companies may struggle in meeting and fulfilling the continued expectations of their workforce (Cappelli, 1999). As more organizations grow and expand their business to meet external demands of their respective markets, they must also have the capabilities and processes in place to motivate, develop, and retain competent employees. Tighter communication links between human resource managers, supervisors,

**Employees who
were given realistic
job previews prior
to hiring were
less likely to leave
the organization.**

and employees that foster the fair allocation of rewards and benefits need to be integrated at all organizational levels and positions. In cases where there have to be changes in the psychological contract, employers should seek to renegotiate the contract and thereby establish new terms that are reflective of the new employment conditions. It is particularly important for organizations to communicate effectively in situations where circumstances beyond their control are responsible for the adjustments that are being made to the psychological contract.

Both procedural and interpersonal remedies may be utilized to reduce adverse consequences for the organization (Morrison and Robinson, 1997; Rousseau, 1995); that is, remedies to re-establish a good employee-employer relationship may include instituting communication mechanisms that inform employees how decisions and fulfillment of promises are made and implementing procedures that allow employees to challenge or appeal job decisions made by the firm. Human resource managers should ensure that employees understand how the organization is trying to meet their multiple needs and promises. In addition, HR managers should give employees the opportunity to express any new changes in what they believe their organization should provide to them. By focusing on their needs, in conjunction with organizational capabilities and resources, managers may further enable their companies to retain key talent.

Many of the ideas discussed here are directly in line with the principles of open-book management (Case, 1996; McCoy, 1996). The underlying goal of this approach is to empower and motivate employees toward the common goal and strategy of the firm (Davis, 1997) by helping employees understand their role in the firm. By sharing a broad array of organizational information (i.e., promises and obligations, as well as financial and marketing practices), the organization is helping its employees recognize their contribution and significance to the success of the business. In addition, a firm employing open-book management can provide better explanations when its ability to fulfill psychological contract obligations is negatively impacted by factors that may be beyond the firm's control (e.g., market, industry, and competition reasons; Morrison & Robinson, 1997; Rousseau, 1995). Many of the employees in our study gave recommendations on how organizations and HR professionals can effectively convey business information and employment changes:

"Organizations should make sure that employees (1) Meet with the company and openly discuss it (unfulfilled employment promises), and (2) Meet with key individuals whose expectations have been severely impacted (by the changes)."

"Human resources should get more involved in the company-employee relationship. They are currently more reactive as opposed to proactive. If they understood more about employees' needs before it is out of control, it could save them more time and energy."

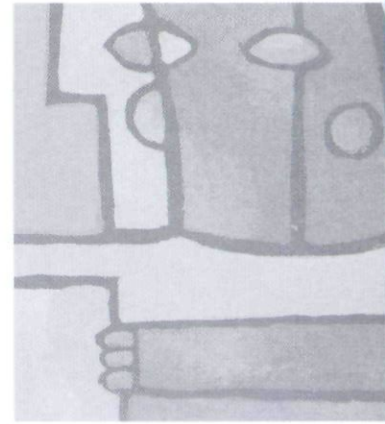
"The company should offer a timetable of when the changes will be implemented, rather than putting ideas/improvements on the proverbial 'back burner.'"

"There should be direct communication on the timeline and the skills that a person should develop to acquire the next job/role. Work with employees to fulfill their goals."

"There should be greater involvement of employees regarding the finances of the business. How what an employee does impacts the bottom line and how changes can improve it."

Performance Appraisal

Supervisory and managerial personnel within organizations should also receive guidance on giving employees adequate justification and explanations on all job/role changes. Many of these recommendations may be integrated within the performance appraisal process where employee expectations can be aligned with organizational/departmental strategies and objectives. Roles and responsibilities that are in alignment with employees' developmental needs may provide them with further motivation and encouragement toward the common goal of the organization. Because an employee's contract can be seen as dynamic and evolving (Thomas and Anderson, 1998), supervisors and managers should seek to understand the changes in employee's expectations at various levels and times within an employee's job tenure. For example, during the performance appraisal process, supervisors should assess how their subordinates' needs and values may have changed as they have interacted and worked within the organization, including the relational aspects of the employment relationship (e.g., job security, growth and development issues, and work-family balance). When employees' contributions are rewarded in terms of their own needs



and expectations, it may give them further reasons to achieve many of their job/role requirements as well as engage in citizenship behaviors. Companies such as G.E., Enron, and Southwest Airlines have created and implemented business models that ensure that both employee and organizational expectations are clearly understood, as well as the means by which contributions are rewarded throughout an employee's tenure with the organization (Neilson et al., 2000).

LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

The current study has some limitations that should be taken into account. In this section we identify these limitations and use them as indicators of potential directions for future research on the psychological contract and its relationships with employee attitudes and behaviors.

One limitation is the presence of common-method variance concerns. Participants provided survey responses to both the psychological contract items as well as the outcome measures. It is possible that participants were exhibiting a social desirability bias when assessing their own behaviors and this may have had a confounding effect on some of the correlations. It should be noted, however, that it is likely that a social desirability bias would have led to weaker relationships between psychological contract discrepancy scores and performance ratings. That is, someone who was concerned about social desirability may have indicated that they performed at a high level despite unfulfilled psychological contract obligations, when in reality they had intentionally decreased the effort they exerted. This is a plausible explanation for the weaker relationships that were found with the behavioral outcome measures. Future research should gather performance measures from independent sources (e.g., the employee's supervisor, co-workers, or other organizational agents).

Psychological contract perceptions were assessed through the perspective of MBA students in this study. Although most of the work on psychological contract has been conducted with only MBA students (e.g., Robinson, 1996; Robinson et al., 1994), these students may have different goals, needs, and expectations than those who are not enrolled in such programs and who are not considered for managerial positions. As a result, MBA students may react more negatively towards

their employer when certain aspects of their contract are unfulfilled. Further work needs to be conducted on a variety of employees to better understand the attitudinal and behavioral impact of psychological contract fulfillment.

The objectives of this study (i.e., an examination of the psychological contract at the item level) dictated the use of simple correlational analyses. Nevertheless, it should be noted that future research would benefit from examining broader psychological contract dimensions (that have been previously identified; e.g., Robinson et al., 1994; Robinson, 1996) using more sophisticated statistical analyses.

CONCLUSION

This study provided further evidence of the detrimental consequences that can occur when organizations are unable to fulfill their employees' psychological contracts. This study moves beyond the identification of these negative outcomes and attempts to provide assistance to HR practitioners by answering two very important questions: (1) "What components of the psychological contract do today's employees value most?", and (2) "What HR practices will provide organizations with the best chance of consistently satisfying psychological contract obligations?"

This study suggests that employees place a great deal of importance on intrinsic outcomes. Organizations need to find ways to communicate more effectively about their abilities to satisfy these intrinsic needs. At the same time, our results suggest that employees have very little tolerance for even the smallest discrepancies when it comes to receiving the extrinsic rewards they expect. Focusing primarily on managerial communication and the HR functions of recruitment and performance appraisal, we have offered several suggestions for managing the expectations that surround the employment relationship more effectively. It is our hope that future research will continue to examine practical ways that managers can successfully address the daunting challenge of upholding psychological contracts in a highly dynamic and ever-changing work environment.

Biographical Sketches

Scott W. Lester is an assistant professor of management in the College of Business at the University of Wisconsin at Eau Claire where he

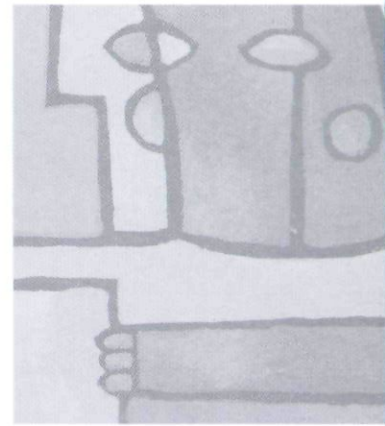
This study suggests that employees place a great deal of importance on intrinsic outcomes.

teaches courses on organizational behavior and human resource management. He received his Ph.D. from the University of South Carolina. His current research interests include the development of group potency in newly formed work groups, the impact of work values on organizational outcomes, and the implications of the changing nature of psychological contract obligations.

Jill Kickul is an assistant professor of management in the Charles H. Kellstadt Graduate School of Business at DePaul University where she teaches courses on entrepreneurship and new venture management, entrepreneurship strategy, and management strategy. Her research interests include entrepreneurial intentions and behavior, strategic, and innovation processes in start-up ventures, and organizational and procedural issues within entrepreneurial firms. She has worked as a management consultant and conducted training in the areas of strategic analysis and planning and leadership development.

References

- Argyris, C. (1960). *Understanding Organizational Behavior*. Homewood: The Dorsey Press, Inc.
- Cammann, C., Fichman, M., Jenkins, D., & Klesh, J.R. (1975). "Assessing the Attitudes and Perceptions of Organizational Members." In S. Seashore, E. Lawler, P. Mirvis, C. Cammann (Eds.), *Assessing Organizational Change* (pp. 71-138). New York: Wiley.
- Cappelli, P. (1999). *The New Deal at Work*. Boston: Harvard Business School Press.
- Case, J.F. (1996). *Open-Book Management: The Coming Business Revolution*. New York: HarperCollins Publishers.
- Davis, T.R. (1997). "Open-Book Management: Its Promise and Pitfalls." *Organizational Dynamics*, 25: 7-20.
- Ehrlich, C.J. (1994). "Creating an Employer-Employee Relationship for the Future." *Human Resource Management*, 33: 491-501.
- Guzzo, R., Noonan, K., & Elron, E. (1994). "Expatriate Managers and the Psychological Contract." *Journal of Applied Psychology*, 79: 617-626.
- Hitt, M.A. (1998). "Twenty-First Century Organizations: Business Firms, Business Schools, and the Academy." *Academy of Management Review* 23: 218-224.
- Kickul, J. (In press). "When Organizations Break Their Promises: Employee Reactions to Unfair Processes and Treatment." *Journal of Business Ethics*.
- Kolb, D.A., Osland, J.S., & Rubin, I.M. (1995). *Organizational Behavior: An Experiential Approach*. Englewood Cliffs, NJ: Prentice Hall.
- Kotter, J.P. (1973). "The Psychological Contract: Managing the Joining-Up Process." *California Management Review*, 15: 91-99.
- Levinson, H., Price, C.R., Munden, K.J., & Solley, C.M. (1962). *Men, Management, and Mental Health*. Cambridge, Mass: Harvard University Press.
- McCoy, T.J. (1996). *Creating an "Open Book" Organization: Where Employees Think and Act Like Business Partners*. New York: AMACOM.
- McLean Parks, J., & Schmedemann, D. (1994). "When Promises Become Contracts: Implied Contracts and Handbook Provisions on Job Security." *Human Resource Management*, 33: 403-424.
- Meyer, J., Allen, N., & Smith, C. (1993). "Commitment to Organizations and Occupations: Extension and Test of a Three-Component Conceptualization." *Journal of Applied Psychology*, 78: 538-551.
- Morrison, E.W., & Robinson, S.L. (1997). "When Employees Feel Betrayed: A Model of How Psychological Contract Violation Develops." *Academy of Management Review*, 22: 226-256.
- Neilon, G., Pasternack, B., & Viscio, A. (2000). "Up the (E) Organization!: A Seven-Dimensional Model for the Centerless Enterprise." *Strategy and Business*, 1: 52-61.
- Organ, D.W. (1988). *Organizational Citizenship Behavior: The Good Soldier Syndrome*. Lexington, MA: Lexington Books.
- Phillips, J.M. (1998). "Effects of Realistic Job Previews on Multiple Organizational Outcomes: A Meta-Analysis." *Academy of Management Journal*, 41: 673-690.
- Robinson, S.L. (1996). "Trust and Breach of the Psychological Contract." *Administrative Science Quarterly*, 41: 574-599.
- Robinson, S.L., Kraatz, M.S., & Rousseau, D.M. (1994). "Changing the Obligations and the Psychological Contract." *Academy of Management Journal*, 37: 437-452.
- Robinson, S.L., & Morrison, E.W. (1995). "Psychological Contracts and Organizational Citizenship Behavior: The Effects of Unfulfilled Obligations." *Journal of Organizational Behavior*, 15: 245-259.
- Roehling, M.V. (1996, August). *Critical Issues in the Conceptualization of the Psychological Contract*. Paper presented at the meeting of the Academy of Management, Cincinnati.
- Rousseau, D.M. (1998). "The 'Problem' of the Psychological Contract Considered." *Journal of Organizational Behavior*, 19: 665-671.
- Rousseau, D.M. (1995). *Psychological Contracts in Organizations: Understanding Written and Unwritten Agreements*. Thousand Oaks, CA: Sage.
- Rousseau, D.M. (1989). "Psychological and Implied Contracts in Organizations." *Employee Responsibilities and Rights Journal*, 2: 121-139.
- Rousseau, D. M., & Greller, M. M. (1994). "Human Resource Practices: Administrative Contract Makers." *Human Resource Management*, 33: 385-401.
- Rousseau, D.M., & McLean Parks, J. (1993). "The Contracts of Individuals in Organizations." In L.L. Cummings & B.M. Staw (Eds.), *Research in Organizational Behavior*, Vol. 15, 1-43. Greenwich: JAI Press.
- Rousseau, D.M. & Tijoriwala, S.A. (1998). "Assessing Psychological Contract: Issues, Alternatives and Measures." *Journal of Organizational Behavior*, 19: 679-695.
- Schein, E.H. (1980). *Organizational Psychology*. Englewood Cliffs, NJ: Prentice-Hall.
- Schein, E.H. (1965). *Organizational Psychology*. Englewood Cliffs, NJ: Prentice-Hall.
- Shore, L.M., and K. Barksdale (1998). "Examining Degree of Balance and Level of Obligation in the Employment Relationship: A Social Exchange Approach." *Journal of Organizational Behavior*, 19: 731-744.
- Shore, L.F., & Tetrick, L.E. (1994). "The Psychological Contract as an Explanatory Framework in the Employment Relationship." *Trends in Organizational Behavior*, 1: 91-107.
- Sims, R.R. (1994). "Human Resource Management's Role in Clarifying the New Psychological Contract." *Human Resource Management*, 33: 373-382.
- Thomas, H.D. & Anderson, N. (1998). "Changes in Newcomers' Psychological Contracts During Organizational Socialization: A Study of Recruits Entering the British Army." *Journal of Organizational Behavior* 19: 745-767.
- Wanous, J.P. (1980). *Organizational Entry: Recruitment, Selection, and Socialization of Newcomers*. Reading, Mass.: Addison-Wesley.
- Wilhelm, W.R. (1994). "Guest Editor's Note: The Employment Contract." *Human Resource Management*, 33(3): 323-324.
- Williams, L.J., & Anderson, S.E. (1991). "Job Satisfaction and Organizational Commitment as Predictors of Organizational Citizenship Behaviors." *Journal of Management*, 17(3): 601-617.



Copyright of Human Resource Planning is the property of Human Resource Planning Society and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.