

THE PSYCHOLOGICAL CONTRACT: VIOLATIONS AND MODIFICATIONS*

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"They promised me a job in marketing and here I am doing telephone sales."
 "The company promised that no one would be fired out of the training program—that all of us were 'safe' until placement. In return for this security, we accepted lower pay. The company subsequently fired four people from the training program."
 "Original representations of the company's financial and market strength (were) clearly fraudulent."

The common thread found in these quotations from recently hired employees is a violation of the psychological contract, which is defined as individual beliefs, shaped by the organization, regarding terms of an exchange agreement between individuals and their organizations. A contract is a mental model that people use to frame events such as promises, acceptance, and reliance. The promises that make up contracts have no objective meaning. Promises ultimately are perceptions of what was sent and what was meant. Perceptions, however, are not simply passive interpretations of reality; people create their own meaning for many events. The close supervision one person sees as controlling may seem supportive and helpful to her co-worker. Yet reality is not constructed wholly in the minds of individuals. Groups sometimes do agree on events and their meaning. Investment bankers, for example, may share a belief that their firm rewards those who make profitable deals.

Contract violation erodes trust. It undermines the employment relationship, yielding both lower employee contributions (e.g., performance and attendance) and lower employer investments (e.g., retention and promotion) in employees. Therefore, it's important for managers to understand how to avoid violating psychological contracts unnecessarily and how to modify them without eroding trust when change is essential. Psychological contract violation can run the gamut from subtle misperceptions to stark breaches of good faith. In organizations, violated contracts are at the heart of many lawsuits brought by customers and employees. Although potentially damaging to reputations, careers, and relationships, violations also appear to be both frequent and survivable.

The basic facts of contract violation are these:

- Contract violation is commonplace.
- Violated contracts lead to adverse reactions by the injured party.
- Failure to fulfill a contract need not be fatal to the relationship.

WHAT IS CONTRACT VIOLATION?

In the strictest sense, violation is a failure to comply with the terms of a contract. But, given the subjective nature of psychological contracts, how people interpret the circumstances of this failure determines whether they experience a violation. Violation

*Excerpted and reprinted with permission from D. M. Rousseau, *Psychological Contracts in Organizations* (Thousand Oaks, CA: Sage, 1995).

TABLE 1 Sources of Experienced Violation

Inadvertent	Able and willing (divergent interpretations made in good faith)
Disruption	Willing but unable (inability to fulfill a contract)
Breach of contract	Able but unwilling (reneging)

takes three forms (Table 1). *Inadvertent violation* occurs when both parties are able and willing to keep their bargain, but divergent interpretations lead one party to act in a manner at odds with the understanding and interests of the other. Two people who misunderstand the time of a meeting will inadvertently fail to honor their mutual commitment to attend. *Disruption* to the contract occurs when circumstances make it impossible for one or both parties to fulfill their end of the contract, despite the fact that they are willing to do so. A plant closing forced by a hurricane can prevent an employer from providing work. Similarly, a car accident can keep an employee from showing up to work on time. Reneging or *breach of contract* occurs when one side, otherwise capable of performing the contract, refuses to do so. A bank manager who wants to spend more time with his family leaves a high demand/high pay job with one bank for another with a smaller financial institution. The major attraction of the new bank for the manager is its low pressure environment, which is played up by the officers who recruit him. Within two weeks of taking the job, the manager learns that the smaller firm is starting an aggressive marketing campaign he is expected to head, which will keep him away from his family for even longer hours than before. Damages include increased stress and family conflict along with loss of reputation if he tries to change jobs again soon. The sense of betrayal and entrapment this manager feels exacerbates his personal costs from the organization's actions. Whether the victim understands the source of violation to be unwillingness or inability to comply has a tremendous impact on how violation is experienced and what victims do in response (Bies and Moag, 1986).

Although contracts can be violated in innumerable ways, there are a number of common forms (Table 2). Recruiters may overpromise a job's opportunity for challenge, growth, or development, while at the same time, eager job seekers may read into a promise what they want to hear. Managers, co-workers, or executives who say one thing and do another all can engender violation. A common cause of violation for many employees involves a change in superiors. When one's boss or mentor is promoted, terminated, or retired, old deals may be abrogated. Similarly, changes in human resource practices, even with constructive intent (e.g., to align with a new business strategy) can appear to break old commitments (e.g., introducing new results-based performance criteria among veteran employees used to a seniority system). Then there is the phenomenon of mixed messages, where different contract makers express divergent intentions. A mission statement can convey that the organization rewards based upon merit ("commitment to excellence") while the compensation system is based on seniority. Different contract sources may each convey mutually exclusive promises.

TABLE 2 Sources of Violation by Contract Makers and Systems

Sources	Violations
<i>Contract Makers:</i>	
recruiters	■ unfamiliar with actual job
managers	■ overpromise
	■ say one thing, do another
co-workers	■ failure to provide support
mentors	■ little follow-through
	■ few interactions
	■ mixed messages
<i>Systems:</i>	
compensation	■ changing criteria
	■ reward seniority, low job security
benefits	■ changing coverage
career paths	■ dependent on one's manager
	■ inconsistent application
performance review	■ not done on time
	■ little feedback
training	■ skills learned not tied to job
documentation	■ stated procedures at odds with actual practice

WHEN IS VIOLATION MOST LIKELY?

- When there is a history of conflict and low trust in the relationship.
- When social distance exists between the parties such that one does not understand the perspective of the other.
- When an external pattern of violations exists (e.g., an era of business retrenchment).
- When incentives to breach contracts are very high or when perpetrators perceive themselves to have no alternatives (e.g., organizational crises).
- When one party places little value in the relationship (e.g., alternative parties are relatively available and there are few sunk costs).

WHEN A CONTRACT IS VIOLATED

Responses to violation take many forms. Violated contracts promote mistrust, anger, and attrition and change the way people behave in subsequent interactions. The aftermath of contract violation can be seen in declining corporate loyalty and increased litigation. Managers decry the decline of employee loyalty, while at the same time, the workforce has been counselled to eschew reliance on job security and employee commitments, and to “pack its own parachute” instead. In both instances there is the suggestion of contract violation, and the implication that at least one party has failed to keep its side of the bargain.

TYPES OF RESPONSES

Whether organizations and individuals choose to end their relationship, resolve their dispute, sue, or suffer in silence is a function of both situational factors and the predispositions of the parties. Previous research on responses to the more general phenomenon of dissatisfaction has largely focused on four courses of action: exit, voice, loyalty, and destruction. Although studied in various combinations (e.g., Hirschman, 1970s *Exit, Voice, and Loyalty*) and labels (e.g., Farrell's, 1983, *Exit, Voice, Loyalty, and Neglect*), these courses of action reflect two essential dimensions: active-passive and constructive-destructive.

Personal characteristics predisposing the victim to believe that the relationship is valuable or can be saved should promote either relationship-building behaviors of voice or loyalty. Without this belief, behaviors that undermine the relationship, exit or destruction, are more likely. Research on individual reactions to inequitable situations suggests that people differ in terms of their willingness to tolerate unfair or inequitable exchanges (Berscheid and Walster, 1973). "Equity-sensitives" are people who tend to monitor their exchanges with others very carefully. "Beneficient" individuals are those who tend to be other-oriented, or comfortable when exchanges benefit others more than themselves. There is some evidence that men are more likely to be equity-sensitive and women more beneficent, although personality and other factors also enter in.

Situational factors promoting certain behaviors and inhibiting others also affect responses to violation. Social learning and the presence of behavioral role models tend to induce certain types of behaviors. Thus, employees in organizations where other victims have left might be inclined to leave themselves. Similarly, individuals who have observed others successfully complain about their treatment might themselves be inclined to complain (Robinson, 1992). It is likely that the culture of the organization shapes the type of violation responses people make. A very bureaucratic organization that stifles communication and deviant behavior probably engenders little voice and more neglect and disloyalty. An open, communal organization might foster more overt complaints, as well as attempting to repair the contract by communicating with superiors.

Exit is voluntary termination of the relationship. Employers can terminate workers whose performance does not meet standards (e.g., too frequently tardy, absent, or careless), while workers can quit an untrustworthy or unreliable employer (e.g., who fails to deliver promised training or promotions). Exit is most likely in employment with transactional terms, where its costs are relatively low. Transactional terms are exemplified by *a fair day's work for a fair day's pay*—focusing on short-term and monetizable exchanges. Employment agencies such as Manpower, Kelly, Nurseltemp, and other temporary employment services offer organizations the opportunity to create purely transactional agreements with workers. Transactional contract terms include: specific economic conditions (e.g., wage rate) as the primary incentive, limited personal involvement in the job, closed-ended time frame (e.g., seasonal employment), commitments limited to well-specified conditions (e.g., union contract), unambiguous terms readily understood by outsiders, and the use of existing skills (no development).

Both active and destructive, exit terminates the relationship. The vast majority of people quitting jobs within the first two years of employment report that their employer had violated commitments it had made (Robinson and Rousseau, 1994).

Exit is most likely following violation when:

1. the contract is transactional;
2. many other potential jobs or potential employees are available;
3. the relationship is relatively brief;
4. other people are also exiting; and
5. attempts to remedy a violated contract have failed.

However, it should be pointed out that violations don't always lead to exit. Robinson and Rousseau (1994) found that although 79 percent of leavers reported violated contracts, so too did 52 percent of stayers. While enduring violation, stayers can manifest three forms of response: voice, loyalty, or neglect.

Voice refers to the actions victims take to remedy the violation. Any attempt to change the objectionable features in the situation, such as complaints to one's boss or to human resources, or the filing of a grievance, are efforts made to remedy or compensate for the violation while remaining in the relationship. As a means of expressing general dissatisfaction, voice has received wide study in terms of grievance filing (Allen and Keaveny, 1981), willingness to vote for unions (Getman, Goldberg, and Herman, 1976), and whistle-blowing (Near and Miceli, 1986). However, as a means of remediating a contract violation, voice has distinct features from reparations for dissatisfaction. Voice in contract violation focuses on (1) reducing losses and (2) restoring trust.

As a response to dissatisfaction, voice often has been associated with relationship-threatening alternatives, where members in effect burn their bridges (e.g., whistle-blowing). Voice in response to contract violation is an active, constructive effort and is manifest in a number of ways. In a study of MBA alumni, there were three major types of employee voice behaviors: talking with superiors, threats, and changes in behavior (Rousseau, Robinson, and Kraatz, 1992).

Talking with superiors was the most frequent type of voice:

I discussed my disappointment with my boss and also with my mentor. I was assured that, although I did not receive a bonus, my performance was above average. I was promoted and received a salary increase six months later.

Some complaints obtain some sort of substitution:

They said the situation was out of their hands and gave me a substantial salary increase.

Some complaints elicit no response:

My boss paid lip service to making changes, but nothing actually occurred.

