

# **Employee and Employer's Reactions to Psychological Contract Breaches:**

## **An Empirical Study in China <sup>1,2</sup>**

Zhen Xiong Chen

School of Business and Government

University of Canberra

Canberra, ACT 2601

Australia

E-mail: [georgezx@hkbu.edu.hk](mailto:georgezx@hkbu.edu.hk), and [George.Chen@canberra.edu.au](mailto:George.Chen@canberra.edu.au)

Fax: +61-2-6021-5339

Anne S. Tsui

Arizona State University

[Anne.Tsui@asu.edu](mailto:Anne.Tsui@asu.edu)

and

Lifeng Zhong

Peking University

[zhonglf@gsm.pku.edu.cn](mailto:zhonglf@gsm.pku.edu.cn)

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# **Employee and Employer's Reactions to Psychological Contract Breaches: An Empirical Study in China**

## **Abstract**

This study examined the reactions of psychological contract breach from two separate perspectives, i.e., employee's reaction to employer's breach and employer's (supervisor's) reactions to employee's breach of the psychological contract. We tested both the main and the moderating effects of the two psychological contract breaches with a sample of 273 supervisor- subordinate dyads from the People's Republic of China. The results showed that the employer's breach was negatively correlated with employee outcomes of organizational commitment, organizational citizenship behavior, and productivity, but relationship was weakened when the employee has traditional values. The results also demonstrated that the employee's breach was negatively correlated with supervisor responses in lower leader-member exchange quality, perception of lower employee promotability, and less mentoring provided to the employee. However, the negative relationship to mentoring was weakened when the leader was benevolent.

## INTRODUCTION

Since the 1980s, the increasingly competitive environment and technological developments have engendered more and more organizational restructuring (Williams, 1998) resulting in “changes in employment relationships with employees at all levels” (Tsui & Wang, 2002). The changes have stimulated much scholarly interest, particularly the study of employee responses to different types of employment relationships (Tsui, Pearce, Porter & Tripoli, 1997) and psychological contracts (Shore & Barksdale, 1998).

A psychological contract is the mutual expectations held by employees and their employers regarding the terms and conditions of the exchange relationship (e.g., Kotter, 1973; Rousseau & Tijoriwala, 1998). In the studies of psychological contracts, there is a large body of literature addressing psychological contract violation or breach which arises when one party in an exchange relationship perceives the other party to have failed to fulfill promised obligations (Morrison & Roberson, 1997; Robinson & Rousseau, 1994). For example, Robinson and Morrison (2000) conducted a longitudinal study of 147 managers and examined the organizational and individual factors that influence employees’ perceptions of psychological contract breach and feelings of contract violation. In another longitudinal field study of 125 newly hired managers, Robinson (1996) examined the relationships between psychological contract breach and employees’ trust in their employers and subsequent contributions to the organization. In general, research has shown that perceived psychological contract breach reduces employees’ commitment to the organization,

willingness to engage in organizational citizenship behavior, productivity, job satisfaction, job performance, and enhance the intent to leave the organization and actual turnover (Bunderson, 2001; Conway & Briner, 2002; Coyle-Shapiro, 2002; Thomas, Au & Ravlin, 2003; Edwards, Rust, McKinley & Moon, 2003). Common across these studies is that they examined perceived psychological contract breach and its consequences only from the employee's perspective.

Recently, some researchers have started to measure perceived psychological contract breach from both the employee and employer perspectives. For example, Coyle-Shapiro and Kessler (2000) examined the relationship between fulfillment of the psychological contract by the employer and employees' perceived organizational support, commitment to the organization and OCB behavior from both the employer and employee perspective. Lester et al. (2002) tested the relationship between psychological contract breach and employees' organizational commitment and performance, also from both the employer and employee perspectives. De Vos, Buyens and Schalk (2003) conducted a four-year longitudinal study among 333 new hires. They examined the new employees' psychological contract changes during organizational socialization, focusing on newcomers' psychological contract perceptions (perceived employer promises and perceived employee promises) and their relationships from the employee perspectives. Using a sample of 130 employee-manager dyads, Tekleab and Taylor (2003) examined the antecedents and consequences (e.g., employee job satisfaction, employee intention to leave, employee OCBs, and employee performance) of organization-employee agreement on contract obligations and

violations (or breaches). In this study, they measured contract violations concurrently from both the employer and employee perspectives. In summary, Coyle-Shapiro and Kessler (2000) and Lester et al. (2002) measured only one half of psychological contract breach (from employee perspective), while Tekleab and Taylor (2003) considered contract violation from both the employer and employee perspectives. However, they have investigated employee/subordinate outcomes (e.g., organizational commitment, employee's self-rated performance, and employees' organizational citizenship behavior) only. The employer's or supervisor's responses to psychological contract breach by the employee have still not been examined.

Analyzing employer's reaction to psychological contract breach is consistent with the appeal for including the employer's perspective in the study of psychological contracts in general. Millward & Brewerton (2000) argued that conceptualization of psychological contracts should "take into consideration the wants and offers of both individual and organization" (p. 51). In a very extensive review of the psychological contract research, Shore et al. (2004) elaborated on the need for integrating both perspectives in future research on the employee-organization relationship. This will achieve a more comprehensive understanding of the nature, changes, and effects of the exchange relationship between an employer and an employee.

Another gap in the literature on psychological contract breach is that it has not considered possible individual differences in the reactions to contract breach. Would all employees have similar reactions to psychological contract breach by the employer? Would all employers react

similarly to employee breach of the psychological contract? The current study aimed to bridge the above gaps by exploring the main and moderating effects of psychological contract breach from the dual perspectives. We explored the role of two individual difference variables that may moderate each party's responses to perceived psychological contract breach by the other party.

Psychological contract theory (Rousseau, 1995) suggested that organizations have multiple agents who may describe the company's view of reciprocal obligations under the employment contract. The agents could include top managers, human resource professionals, and the immediate supervisor. Since the immediate supervisors are the most likely agent to convey the contract to a specific employee (Tekleab & Taylor, 2003), in this study, we treat the immediate supervisor as the agent representing the employer. As Shore and Tetrick (1994) observed "the employee is more likely to view the manager (supervisor) as the chief agent for establishing and maintaining the psychological contract" (p.101).

### **CONCEPTUAL BACKGROUND AND HYPOTHESES**

A core issue in the psychological contract is "the belief that a promise has been made and a consideration offered in exchange for it, binding the parties to some set of reciprocal obligations" (Rousseau, 1989, p. 123). Obligation is a commitment to some future action. When entering into the employment relationship, the employee realizes that by doing so he or she is accepting an obligation to furnish particular services to the organization as well as follow the directives of management. However, the employee perceives that the organization

is also obligated to provide certain items in exchange, such as wages, benefits, training, or career opportunities. Likewise, the employer also realizes certain obligations when entering into a relationship with a new employee. Using the terminologies introduced by Barnard (1938) and later elaborated by March and Simon (1958), the employer is obligated to provide a set of *inducements* in exchange for the employee's obligations to provide certain *contributions*. These perceptions of mutual obligations are created by spoken and written communication, as well as actions taken by each party. Both parties may believe that the obligations are mutually understood but, more often than not, the communication is often incomplete or inaccurate. Such miscommunication is neither intentional nor malicious but a natural tendency by both parties to present a favorable image during the attraction process. This leads to both parties believing that more promises were made than might be intended. Since each party will only provide that which they believe they owe to the other; if one party believes the other is obligated to provide a particular contribution yet the obligated party is unaware of that obligation, they will invariably fall short of delivering it (Shore et al., 2004). As Robinson and Rousseau (1994) argued, both employees and employers can experience a psychological contract violation (or breach) by the other party. The current study does not explore when psychological contract breach by each party may occur but analyzes each party's reactions to perceived breach by the other party.

### **The employees' reactions to perceived inducement breach**

In the present study, we define psychological contract breach from the employee's perspective as the perception of a discrepancy between inducements expected from the employer and perceptions of inducements actually obtained. We refer to this as perceived inducement breach. This definition is consistent with that in the past studies of psychological contract breach (e.g., Morrison and Robinson, 1997).

Empirical studies have demonstrated that perceived inducement breach was negatively related to an employee's organizational commitment (e.g., Robinson, 1995; Coyle-Shapiro & Kessler, 2000; Kickul, 2001; Bunderson, 2001; Lester et al., 2002), job satisfaction (e.g., Tekleab & Taylor, 2003), extra-role behavior or organizational citizenship behavior (Robinson & Morrison, 1995; Robinson, 1996; Coyle-Shapiro and Kessler, 2000; Coyle-Shapiro, 2002; Hui & Lee, in press), productivity (Bunderson, 2001; ) and in-role performance (e.g., Lester et al., 2002; Robinson, 1996; Turnley & Feldman, 1999a).

The above results are consistent with the notions of social exchange theory (Blau, 1964) and equity theory (Adams, 1965). According to these theories, employees are motivated to seek a fair and balanced exchange with their organization. Employees whose psychological contract has been breached are likely to believe that their employer can not be trusted to fulfill its obligations and does not care about the well-being of its employees (Robinson, 1995). Thus, the employees will be motivated to restore balance in the exchange relationship in some ways. A typical means of restoring balance is to reduce the employee's contribution to the organization. They may be less



loyal to their organization, perform poorer or display less citizenship behavior.

While these empirical findings were obtained from samples working in Western setting, we expect similar effects for employees in China – a developing economy where employment conditions are becoming more similar to those of developed economies. Researchers have reported the applicability of Western theories of management in Chinese firms and among Chinese workers (see Tsui & Lau, 2002). Therefore, our first hypothesis is a replication of the main effect of psychological contract breach on employee responses.

*H1: Perceived inducement breach will be negatively correlated with employee responses such as organizational commitment, organizational citizenship behavior, and work productivity.*

### **The moderating effect of traditionality on inducement breach and employee responses**

The above hypothesis assumes that all employees would react similarly to perceived inducement breach. One individual differences variable that may attenuate the reaction is the extent to which employees hold traditional or modern values, a value appropriately of some importance in contexts where old tradition co-exists with modernity as would be the case in developing countries like China. Using the idea of traditionality, Farh, Earley and Lin (1997) discovered that the more traditional Taiwan workers were less sensitive to injustice than the less traditional workers. That is, traditional employees are less likely to react negatively even when they are being treated unfairly. Traditionality is a Chinese indigenous cultural value proposed by Yang, Yu, & Yeh (1989). The defining characteristics of this value are respect for authority, fatalism, a general sense of powerlessness, and obedience. The traditional employees accept the

asymmetric or unequal power between them and their employer (Halpern & Stern, 1998). They believe in the rightful existence of power differentials between themselves and their employer. Employee with high traditionality will tend to consider inequality in exchange between themselves and their employer as reasonable and acceptable. By extension, these employees may be more tolerant when they perceive psychological contract breach, and may not decrease their contributions toward their organization. In contrast, low traditional employees are equalitarian and much sensitive to the equity norm. For them, perceived inducement breach will likely lead to reduction of contribution as a means to regain balance in the social exchange, an outcome typical found in studies using Western sample. Based on the above analysis, we expect:

*H2: Traditionality will attenuate the relationship between perceived inducement breach and employee responses, such as reduced organizational commitment, organizational citizenship behavior, and work productivity. The relationship will be weaker for the more traditional than for the less traditional employees.*

### **The employer's reactions to perceived contribution breach**

Perceived contribution breach refers to an employer's perception of discrepancy between the contributions expected from the employees and those actually fulfilled by them. Contributions are the employees' "payments" to the employer, which could include working extra hours and being loyal in addition to performing the basic tasks. When the employer, in this case the supervisor, perceives that the employee is not fulfilling his or her obligation, how might be some possible responses by the supervisor? To answer this previously unexamined question, we need to consider the total set of inducements that are under the supervisor's control. In addition to

giving a poor performance evaluation and withholding merit increases (which supervisors could do but some are reluctant to do), we expect that supervisors are likely to withhold the more intangible and less observable inducements that are within their direct control.

In the employment relationship, the employer uses two basic types of inducements, i.e., economic such as pay or benefits and developmental such as training or advice (Thompson & Bunderson, 2003; Wang, Tsui, Zhang & Ma, 2003). Considering the supervisor as the agent for the organization, there is a third type of inducement that is highly controllable by the supervisor and desired by the employee. These are the socio-emotional support and the individualized consideration by the supervisor toward the employee. They can be in the form mentoring provided by the supervisor, recommendation for special assignments, or in general a high quality leader-member relationship (Graen & Scandura, 1987; Liden, Wayne & Stilwell, 1993).

The term leader-member exchange (LMX) was used to refer to the quality of the exchange relationship between a supervisor and a subordinate (Dansereau, Graen & Haga, 1975; Wayne Shore, Bommer & Tetrick, 2002). High quality LMX can be characterized by high levels of mutual trust, support and respect between supervisor and subordinate (Dienesch & Liden, 1986; Graen & Cashman, 1975). Each party must exchange something valuable reciprocally in order to maintain the exchange relationship (Graen & Scandura, 1987). If a supervisor perceives a contribution by a subordinate, s/he will accordingly repay him/her, in addition to adjusting economic or developmental inducements, also with socio-emotional inducement by increasing the

support to and the respect for the subordinate. On the contrary, when the supervisor perceives contribution breach by the employee (e.g., employee's contribution was less than expected), the supervisor will reduce his or her socio-emotional support to the employee with a corresponding decrease in the quality of the LMX (Rousseau and McLean Parks, 1993). This logic underlies the observation that poor employee performance is a major determinant of the quality of leader-member exchange (Wayne & Ferris, 1990; DelVecchio, 1998; Colella & Varma, 2001).

In addition to LMX, we consider additional responses of the supervisor such as mentoring provided to the employee and perception of the promotability of the employee. Mentoring is defined here as the career development guidance and socio-emotional support provided by a more experienced person to a less experienced person (Kram & Isabella, 1985; Scandura & Schriesheim, 1994). To date, most mentoring research has indicated that mentors can enhance the protégés' work effectiveness and job success through providing vocational and psycho-social mentoring (e.g., Scandura, 1992; Scandura & Schriesheim, 1994). In this relationship, a mentor provides a protégé with vocational mentoring (such as sponsorship, coaching, technical advice and offering protection) or with psychosocial mentoring (such as role modeling, caring, acceptance and offering encouragement). After receiving supervisory mentoring, a protégé is likely to show reciprocal behaviors (such as acting on suggestions to enhance technical skills, good performance, willingness to exert effort, showing respect to the mentor). Good performance of a protégé may allow him/her to obtain a mentor and report more vocational mentoring and social support

(Scandura, 1992). Based on the social exchange logic, we expect that when the supervisor perceives a contribution breach by the subordinate, the supervisor will reduce mentoring.

Evaluating an employee's promotability involves a rating of his/her current work effectiveness and potential for performing a higher-level position (Wofford, 1994). The supervisor's perception of a subordinate's promotability is important for the subordinate, since it can influence the supervisor's future treatment of and promotion decisions about the subordinate. Drawing on Fishbein and Ajzen's (1975) expectancy-value model of attitude formation, attitudes toward a certain behavior are linked to the expected outcomes resulting from the behavior. Consistent with this notion, research has indicated that a supervisor's perceptions of a subordinate's promotability may be directly affected by his/her evaluation of the performance or attitudes of the subordinate (Wayne, Grat, & Ferris, 1995; Wayne, Liden, Grat, & Ferris, 1997). Thus we postulate that perceived contributions breach would result in the supervisor's lower perception of the subordinate's promotability.

In sum, we expected that socioemotional "currency" (Thompson, & Bunderson, 2003), i.e., LMX, mentoring (vocational mentoring) and promotability, will be negatively associated with perceived contribution breach. When supervisor perceived that an employee violated the psychological contract, the supervisor will reduce the "currency" by decreasing the chance of professional development, making less effort in providing vocational mentoring for the employee, or in general, less support and trust (LMX). Thus, we proposed the following hypothesis:

*H3. Perceived contribution breach will be negatively correlated with supervisor responses such as a lower quality relationship, reduced promotability rating, and less mentoring.*

### **The moderating effect of leader benevolence on perceived contribution breach and supervisor responses**

Not all supervisors will respond to employee breach of the psychological contract in the same manner that we have posited. Some supervisors may be more forgiving or more tolerant than others. We consider the role of kindness or benevolence, one of the three key behaviors of paternalistic leaders in the Chinese context (Farh & Cheng, 2000). Benevolence is the extent to which a trustee is believed to intend to do good to the trustor (Mayer, Daris, & Schoorman, 1995; Whitener, Brodt, Korsgaard, & Werner, 1998; Mayer & Daris, 1999). It demonstrates concern for the welfare of others and conveys sincerity to maintain exchange relationship between two parties (Gassenheimer, Houston, & Manolis, 2004). The one who is of benevolence is interested in more than egocentric profits, s/he may be content with little return for their inputs in an exchange, or even sacrifice themselves for others (Mayer et al., 1995; Mudrack, Mason, & Slepanski, 1999). In a cross – cultural study in Australian, Japanese, Chinese and Russian, Sarros and Santora (2001) found that Chinese managers stressed the values of benevolence, cared more about the needs of their workers. Based on the study of more than 550 Chinese CEOs, Tsui et al. (2004) found six leadership dimensions, one of which is showing benevolence. A supervisor who is benevolent would do personal favors and demonstrate generosity toward the subordinates and their families. Based on the above definition of benevolence, we expected that Chinese managers with benevolence would still try to maintain a relatively higher quality

relationship, show consideration for their subordinates' needs and interests and mentor them, even when they perceive contribution breach by the employees.

*H4. Leader benevolence will attenuate the relationship between perceived contribution breach and supervisor responses such as a lower quality relationship, reduced promotability ratings and less mentoring. The relationship will be weaker when the supervisor is more rather than less benevolent.*

## **METHOD**

### **Sample and Procedures**

The sample of our study consisted of employees from a shoe manufacturing company in a middle size city located in Eastern China. This company employs about three thousand employees. The research procedure involved three steps. First, the Human Resource manager was asked to provide the name lists of all the supervisors in the company, in all the departments and functions, and at all levels. For each supervisor, we sampled three to nine subordinates, with an average of six. We over-sample the new employees (six months to one year of service) because previous research has found that reactions to psychological contract breach were the strongest in the first six months (Morrison & Robinson, 1997). After that, the HR manager, along with one of the researchers of the current project, gathered the supervisors, in several groups, to explain the purpose and requirements of the study. Each supervisor was given a set of questionnaires, one for himself/herself to complete (for each subordinate) and one for each the selected subordinates (for them to complete). We put a matched code numbers on both the subordinate and the supervisor questionnaires. In addition, we put the subordinate's name on the cover page of the supervisor questionnaire in pencil.

Thus, the supervisors can identify which subordinate he/she would evaluate. The supervisors were asked to erase the names of the subordinates after completing the questionnaires. It was emphasized to the supervisors that the purpose of the questionnaires was for research and they were assured of complete confidentiality of their responses. Participation was voluntary. Lastly, the supervisors distributed the subordinate questionnaires to the corresponding subordinates. The respondents were given three days to complete the survey. The researcher returned to the company after three days to collect the survey. All the respondents sealed the completed questionnaires in the envelopes provided by the researcher and returned them to either the researcher directly or the human resource manager.

In total, 60 supervisor questionnaires and 340 subordinate questionnaires were distributed. We received a total of 50 supervisor questionnaires and 299 subordinate questionnaires. The overall response rates were 83.3% and 87.9% (for supervisor and subordinates, respectively). After deleting incomplete questionnaires, a total 273 sets of supervisor-subordinate dyads remained and constitutes the sample for the current study. On the average, each supervisor provided data for six subordinates. Table 1 summarizes the demographic information for the sample of employees and their supervisors.

[Insert Table 1 about here]

## **Measures**

The subordinate questionnaire contains the measures of perceived inducement breach, organizational commitment, traditionality, the quality of leader-member exchange, perceived



mentoring by leader, and leader benevolence. The supervisor questionnaire contains the measures of perceived contribution breach, employee's organizational citizenship behavior, and perceived promotability of the employee. The use of two surveys minimized the problem of common method variance problem.

The survey instruments were in Chinese and original English scales were translated. To assure the equivalence of meaning between the Chinese and English versions, the translation and back translation procedure was performed (Brislin, 1980).

Perceived inducement breach (PIB): We used a 9-item scale developed by De Vos, Buyens & Schalk (2003) and two items from the scale of organization obligations to the employee developed by Tekleab & Taylor (2003). The items for this scale were presented in Appendix. This variable was measured by a 5 point Likert scale ranging from -2 = "receive much less than expected" to +2 "receive much more than expected" (Turnley & Feldman, 2000; Lester et al., 2002). The scale's alpha reliability in this study is .72.

Perceived contribution breach (PCB): We adopted seven of the ten items from the scale by Vos, Buyens & Schalk (2003) and three items from the scale of employee obligations to the organization developed by Tekleab & Taylor (2003). The items for this scale were presented in Appendix. This variable was measured by a 5 point Likert scale ranging from -2 = "receive much less than expected" to +2 "receive much more than expected" (Turnley & Feldman, 2000; Lester et al., 2002). The scale's alpha reliability in this study is .82.

Organizational commitment (OC): A 6-item scale by Meyer, Allen & Smith (1993) was used to measure affective organizational commitment. This scale has been used by Chen & Francesco (2003) in China. Sample items include "I feel emotionally attached to this organization" and "I feel a strong sense of belonging to my organization." Responses were

given on a seven-point scale ranging from (1) 'strongly disagree' to (7) 'strongly agree'. The scale's alpha reliability in this study is .74.

Organizational citizenship behavior (OCB). Following previous research, we treated OCB as a multidimensional construct, individual-directed (OCBI) and organization-directed (OCBO) (Lee & Allen, 2002; Williams & Anderson, 1991). The two scales were measured by a 16-item scale (8-item for each dimension) by Lee & Allen (2002). Sample items for OCBI include "Helps others who have been absent" and "Goes out of way to make new employees feel welcome in the work group." Sample items for OCBO include "Attend functions that are not required but that help the organizational image" and "Offer ideas to improve the functioning of the organization." A 7-point Likert scale (1 = 'strongly disagree'; 7 = 'strongly agree') was used. The alpha coefficient of the OCBI scale is .87 and .89 for the OCBO scale.

Productivity. We used an objective measure to measure this variable. Immediately after finishing our survey, we obtained the data for three months' salaries (payments by Renmin) for all respondents from the HR department. The employees were paid by pieces produced. Therefore, this is a best measure of employee productivity. The average of the three month salary was used.

Leader-member exchange (LMX). A 7-item scale with a 5-point response format developed by Scandura and Graen (1984) was used to measure LMX. This short form of the LMX scale has been widely adopted in LMX research (cf. Schriesheim & Gardiner, 1992). Sample items include "My immediate supervisor understands my problems and needs" and "My working relationship with my immediate supervisor is effective." The scale's alpha coefficient in this study is .75.

Perceived promotability. This variable was measured with four items adapted from Wayne, Liden, Graf, and Ferris's study (1997). Sample items include "If I had to select a

successor for my position, it would be this employee”; “This employee will probably be promoted to a higher-level position at this organization”. This variable was measured by a 7-point Likert scale (1 = ‘strongly disagree’; 7 = ‘strongly agree’). The coefficient alpha for the scale is .86.

Mentoring. We used a four item scale adapted from Scandura (1992) to measure this variable. Sample items include “My supervisor cares about my career development”; “My supervisor gave me advice how to prepare for my promotion”. This variable was measured in a 7-point Likert scale (1 = ‘strongly disagree’; 7 = ‘strongly agree’). The coefficient alpha of reliability for the scale is .86.

Traditionality. We adopted a Chinese 8-item traditionality scale developed by Yang, Yu, & Yeh (1989) to measure this variable. This scale has previously been used in research in a Chinese context (Hui & Lee, in press; Farh et al. 1997). Sample items are ‘The best way to avoid mistakes is to follow the instructions of senior persons’ and “When people are in dispute, they should ask the most senior person to decide who is right.’ This variable was measured in a 5-point Likert scale (1 = ‘strongly disagree’; 5 = ‘strongly agree’). The scale’s alpha is .73.

Leader benevolence. We used Tsui, Wang, Zhang, Xin, & Fu (2004) four-item Chinese scale to measure this variable. The four items are “My supervisor shows concerns for my family members”; “My supervisor shows concerns for my personal life”; “My supervisor treats his subordinates like his/her family members “My supervisor cares about his subordinates”. This variable was measured in a 5-point Likert scale (1 = ‘strongly disagree’; 5 = ‘strongly agree’). The scale’s alpha is .83.

Controls. We controlled for the employee's gender, age, education and company tenure in all the analyses.

## RESULTS

Table 2 presents the results of the confirmatory factor analysis with LISREL 8.50 (Jöreskog & Sörbom, 2001) that examine the distinctiveness of the multi-item variables used in this study. As shown in the first part of that table, for the variables in the regression models for testing H1 & 2 (perceived inducement breach, traditionality, OC, OCBI, & OCBO), the hypothesized 5-factor model is the best fitting model relative to each of the alternative nested models. For the variables in the regression models for testing H3 & 4 (perceived contribution breach, benevolence, LMX, promotability, & mentoring), the hypothesized 5-factor model is the better fitting model relative to 1-factor models. These results indicated support for the distinctiveness of the constructs in the current study.

[Insert Table 2 about here]

The means, standard deviations and intercorrelations among the study variables and the controls are reported in Table 3. As expected, perceived inducement breach was negatively related to employee outcomes of organizational commitment, OCBI and OCBO, as well as productivity. Further, perceived contribution breach was negatively related to the three supervisor outcomes of LMX, promotability, but not mentoring.

[Insert Table 3 about here]

We used regression analysis to test the hypotheses. Table 4 shows the results for Hypothesis 1 (main effect) and Hypothesis 2 (moderating effect). As shown, the hypothesized main effect of perceived inducement breach on the employee outcomes received support. Perceived inducement breach was negatively related to organizational commitment ( $\beta = -.17, p < .01$ ), OCBI ( $\beta = -.15, p < .05$ ), OCBO ( $\beta = -.14, p < .05$ ) and productivity ( $\beta = -.14, p < .05$ ). To test the moderating effect, we applied moderated

regression analysis. Following Aiken and West (1991), variables used in the interaction terms were centered. As shown in Table 4, traditionality moderated the influence of perceived inducement breach on three of the four dependent variables, OC ( $\beta = .15, p < .05$ ), OCBI ( $\beta = .14, p < .05$ ), and productivity ( $\beta = .12, p < .05$ ), supporting Hypothesis 2.

[Insert Table 4 about here]

We used the same data analysis approach to test hypotheses 3 & 4. Table 5 shows the results for Hypothesis 3 (main effect) and Hypothesis 4 (moderating effect). As shown, the hypothesized main effect of perceived contribution on the employer outcomes received support. Perceived contribution breach was negatively related to two of the three dependent variables, LMX ( $\beta = -.15, p < .05$ ) and promotability ( $\beta = -.31, p < .01$ ), suggesting support for Hypothesis 3. Table 5 also shows that leader benevolence moderated the influence of perceived contribution breach on mentoring ( $\beta = .13, p < .05$ ), but not on LMX and promotability, partially supporting Hypothesis 4.

[Insert Table 5 about here]

To demonstrate the specific moderating effects for H2, we solved for regression equations at high and low levels of traditionality. Following Cohen and Cohen (1983), high and low levels of traditionality were defined by plus and minus one standard deviation from the mean. We plotted the relationship between perceived inducement breach and the employee outcomes of OC, OCBI, and productivity. A similar procedure was used to demonstrate the moderating effect in H4, using high and low levels of leader benevolence. We plotted the relationship between perceived contribution breach and mentoring. Figures 1 to 4 indicate that the patterns of the interactions were consistent with the prediction.

[Insert Figures 1 to 4 about here]

## **DISCUSSION AND CONCLUSION**

The results of this study extended that of the previous studies by identifying both the

main and moderating effects of psychological contract breaches from two separate perspectives, and considering both supervisor and subordinate outcomes. Consistent with the findings of the previous studies in the Western settings, perceived inducement breach was negatively correlated with employee outcomes of organizational commitment, OCB, and productivity in the Chinese setting. Extending previous research, our study revealed that perceived contribution breach by employees was negatively related to the quality of leader-member exchange, perception of promotability of the employee, and amount of mentoring provided to the employee by supervisors. When a supervisor (the agent of the employer) perceived that a subordinate contribute less to the organization than expected, i.e., “failure to deliver on perceived promises” by the employee, the supervisor will reduce these socioemotional “payments”, to obtain a balance in the exchange relationship.

We further identified two boundary conditions influencing the relationships between psychological contract breaches and reactions, i.e., the attenuating effects of employee’s traditionality and leader’s benevolence. The results show that the highly traditional employees were less sensitive to their employer’s psychological contract violation than the less traditional employees. This finding is consistent with that by Farh et al. (1997) suggesting the importance of this cultural value for organizational behavior in contexts where tradition and modernity may co-exist. The results of our study also show that the more benevolent leaders are less sensitive to employee’s violation of the psychological contract

than the less benevolent leader. However, this attenuation by benevolence applies only to mentoring behavior. The benevolent leader continues to provide mentoring even when the employee failed to deliver on his or her contribution obligations. These leaders perceived the employees to be less promotable and the employees perceived a lower quality relationship with these leaders regardless of their benevolence orientation. Perhaps the benevolent leaders are willing to help with these employees' career so that they can be better prepared for other jobs, despite their disappointment with their contribution, a sign of benevolence indeed.

As with any study, this study has a number of limitations. First, the use of cross-sectional data implies that cause-effect relationships cannot be inferred from the findings reported here. While it is possible that low performance may lead to a reduction of supervisory support (as measured by the three employer responses), logically, it is not as likely that these responses would produce a perception of breach in contributions. Future research should adopt a longitudinal methodology to establish the causal basis of the relationships examined in the current study. Another limitation is that our data were collected from only one company in China. The extent to which our findings are generalizable to other companies or settings should be tested in future studies. The third limitation is that we used two individual difference variables that are particularly meaningful in the Chinese context, i.e., employee traditionality and leader benevolence, however their meaningfulness to other context is unknown. Lastly, we focused on three socio-emotional variables to capture

employer responses to employee's breach of the psychological contract. Future studies should explore other responses or directly measure, rather than assume, supervisor's perception of injustice or disappointment with the employee.

These limitations, however, are counterbalanced by the methodological strengths of the study. First, the data were obtained from three different sources, including subordinates, their immediate supervisors, and HR department of the company (i.e., the objective pay to employees). Thus, concerns about common method bias should be minimized. Also, interaction terms are less susceptible to common method variance bias. Second, since the empirical literature on psychological contract breach is based primarily on American samples, the use of a Chinese sample in our study helps to demonstrate the external validity of the theory of psychological contract breach.

Our results have both theoretical and practical implications. Theoretically, our study extends the literature on psychological contract in several ways. First, we examined the reactions of psychological contract breach from two separate perspectives – employee and employer (using supervisor as the agent). Especially, unlike previous studies that only examined the employee outcomes for employer's perceived contract violation, our study explored three employer's responses to their perception of contribution breach by the employees. This study, hopefully, will stimulate future studies that will investigate other potential employer responses toward psychological contract violations. Second, this study



examined the boundary conditions of reactions to psychological contract breach, highlighting the roles of individual characteristics, of both the employee and the supervisor, that may weaken or strengthen the reactions to psychological contract breach. Future research should pursue other factors, such as exchange ideology (Eisenberger, Cotterel & Marvel, 1987), social accounts (Sitkin & Bies, 1993) and procedural justice (Lind & Tyler, 1988), that may moderate the responses toward disappointments caused by failure to deliver on (perceived or real) promised obligations in an exchange relationship.

Practically, the results of our moderating effects may help the employer understand why employees differ in their reactions to the employer's violation of the psychological contract. As more young employees enter the work force, the reactions of the less traditional employee may be useful information to the employer in improving the bundle of inducements or manage the employees' perception of the delivery of the inducements. In addition, to improve the employment relationship with employees, an organization may take note of the importance of benevolence by the supervisors. By not withholding mentoring, employees may be able to develop their skills or be transferred to a job where their skills are better suited. In the long run, these employees may change their attitudes (e.g., increasing commitment) and behavior (e.g., doing more OCB), and become the better contributors for the organization, as a result of the mentoring they received from the benevolent supervisors.

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**TABLE 1 Demographic information on respondents**

	<b>Supervisor</b>	<b>Subordinate</b>
<b>Gender</b>		
Male	80.4 %	59%
<b>Age</b>		
Below 20 years old	7.6%	25.2%
20-25 years old	29.8%	38.2%
26-30 years old	29.8%	19.1%
31-40 years old	25.2%	14.9%
41-50 years old	7.6%	1.8%
Over 50 years old		2.7%
<b>Company tenure</b>		
Less than 1year	20.2%	52.4%
1 to 2 years	20.5%	31.1%
More than 2 years	59.3%	6.5%
<b>Education level</b>		
9-11 years	54.5%	68.2%
12-13 years	33.8%	24.8%
14-15 years	10.8%	5.8%
16 years or above	0.9%	1.2%



**TABLE 2 Results of Confirmatory Factor Analysis for the of Variables Studied**

<b>Model</b>	$\chi^2$	<i>df</i>	<b>TLI</b>	<b>CFI</b>	<b>RMSEA</b>
<u>I. For the variables in the regression models for testing H1 &amp;2</u> (Perceived inducement breach, traditionality, OC, OCBI, & OCBO):					
5 Factor Model	1263.57	692	.93	.94	.054
4 Factor Model (OCBI and OCBO were combined)	1426.70	696	.91	.92	.066
1 Factor Model	2385.78	702	.81	.82	.110
<u>II. For the variables in the regression models for testing H3 &amp; 4</u> (Perceived contribution breach, benevolence, LMX, promotability, mentoring):					
5 Factor Model	533.00	367	.96	.96	.037
1 Factor Model	1926.29	377	.62	.64	.150

Note: TLI = Tucker-Lewis Index; CFI = Comparative Fit Index; RMSEA = Root Mean Square Error of Approximation.

OC = organization commitment; OCBI = organizational citizenship behavior (individually directed); OCBO = organizational citizenship behavior (organization directed); LMX = leader-member exchange

**TABLE 3 Means, standard deviations, and intercorrelations among the study variables**

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Inducement breach	3.48	.59	[.72]														
2. Org. Commitment	4.86	.97	-.20	[.74]													
3. OCB-Individual	3.45	1.04	-.17	.11	[.87]												
4. OCB-Organization	3.76	1.19	-.18	.07	.66	[.89]											
5. Productivity	1215.49	678.58	-.21	.16	.26	.29	[.96]										
6. Traditionality	2.92	.72	-.04	.22	.01	.02	-.08	[.73]									
7. Contribution breach	2.69	.54	.17	.01	-.44	-.51	-.00	-.15	[.82]								
8. LMX	3.47	.72	-.38	.20	.21	.20	.25	.01	-.17	[.75]							
9. Promotability	4.10	1.14	.08	-.09	.15	.20	-.06	.10	-.30	-.03	[.86]						
10. Mentoring	3.53	.98	-.23	.27	.01	.13	.03	.09	-.00	.27	-.10	[.86]					
11. Benevolence	3.53	.93	-.28	.30	.19	.21	.18	.09	-.04	.317	-.05	.55	[.83]				
12. Age	2.32	1.09	-.12	.14	.06	.05	.48	.06	.00	.12	-.12	.02	.12	-			
13. Gender	.64	.48	-.15	.13	.04	.08	.17	-.01	-.01	.09	-.12	.08	.06	.09	-		
14. Education	2.32	.75	-.07	.01	.22	.18	.22	-.15	.01	.17	-.03	-.05	.06	.14	.06	-	
15. Tenure	2.93	2.00	-.01	.07	-.06	-.08	-.08	.03	-.02	.11	.01	.09	-.05	-.03	.02	.08	-

Notes: 1) Correlation coefficients of 0.12 or greater are significant at  $p < .05$ ; Correlation coefficients of 0.16 or greater are significant at  $p < .01$ ;  $N = 273$ ; OCB-Individual = organizational citizenship behavior (individually directed); OCB-Organization = organizational citizenship behavior (organizationally directed); LMX = Leader-member exchange.

**TABLE 4** Results of regression analysis on employee responses to employer breach of the psychological contract (H1 & 2)

<u>Variables</u>	<u>OC</u>	<u>OCBI</u>	<u>OCBO</u>	<u>Productivity</u>
	$\beta$	$\beta$	$\beta$	$\beta$
<u>Step 1 (Controls)</u>				
Age	.13	.02	.02	.45**
Gender	.12	.02	.07	.12*
Education	-.01	.22**	.18**	.16*
Tenure	-.07	-.08	-.10	-.08
$\Delta R^2$	.04	.06	.05	.28
$\Delta F$	2.06	3.18*	2.57*	20.88**
<u>Step 2 (Main effects)</u>				
Traditionality	.21**	.04	.04	-.09
Perceived Inducement breach	-.17**	-.15*	-.16*	-.14*
$\Delta R^2$	.07	.02	.03	.02
$\Delta F$	8.55**	2.64	3.16*	3.65*
<u>Step 3 (Moderating effects)</u>				
Inducement breach $\times$ Traditionality	.15*	.14*	.06	.12*
$\Delta R^2$	.02	.02	.00	.01
$\Delta F$	5.33*	4.64*	.77	4.31*

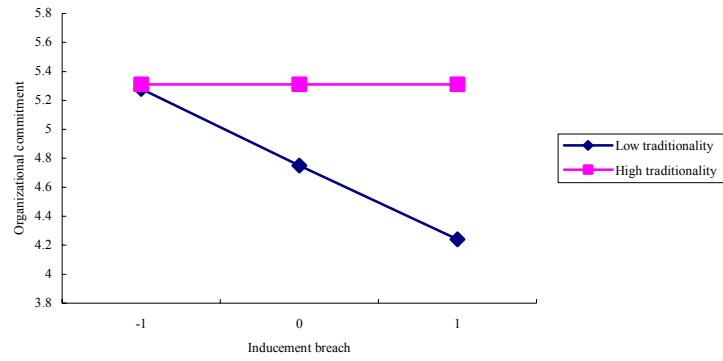
Notes: \* $p < .05$ ; \*\* $p < .01$ ;  $N = 273$ ; OC = Organizational commitment; OCBI = organizational citizenship behavior (individually directed); OCBO = organizational citizenship behavior (organizationally directed).

**TABLE 5 Results of regression analysis on employer (supervisor) responses to employee breach of the psychological contract (H3 & 4)**

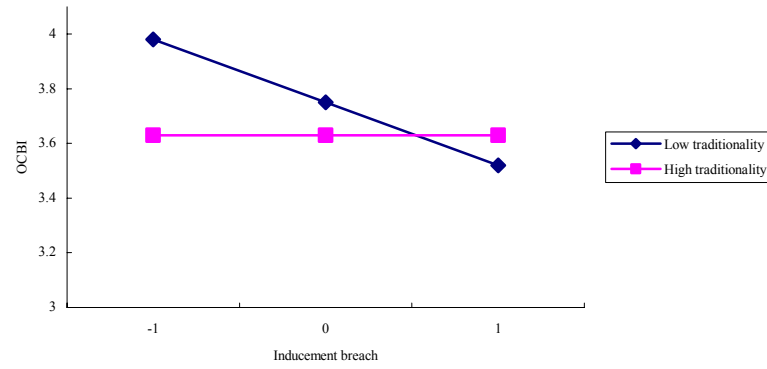
<u>Variables</u>	<u>LMX</u>	<u>Promotability</u>	<u>Productivity</u>
	$\beta$	$\beta$	$\beta$
<u>Step 1 (Controls)</u>			
Age	.09	-.10	.03
Gender	.07	-.11	.08
Education	.15*	-.01	-.07
Tenure	.10	.00	.10
$\Delta R^2$	.05	.03	.02
$\Delta F$	3.04*	1.41	1.04
<u>Step 2 (Main effects)</u>			
Benevolent leadership	.30**	.04	.57**
Perceived contribution breach	-.15*	-.31**	.02
$\Delta R^2$	.11	.09	.31
$\Delta F$	14.31**	11.21*	49.26**
<u>Step 3 (Moderating effects)</u>			
Contribution breach $\times$ benevolence	-.05	.04	.13*
$\Delta R^2$	.00	.00	.02
$\Delta F$	.56	.43	4.85*

Notes: \* $p < .05$ ; \*\* $p < .01$ ;  $N = 273$ ; LMX = Leader-member exchange.

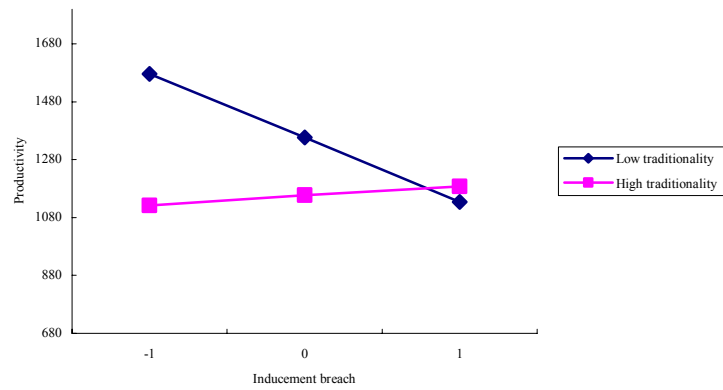
**FIGURE 1**  
**Inducement breach and organizational commitment by**  
**traditionality**



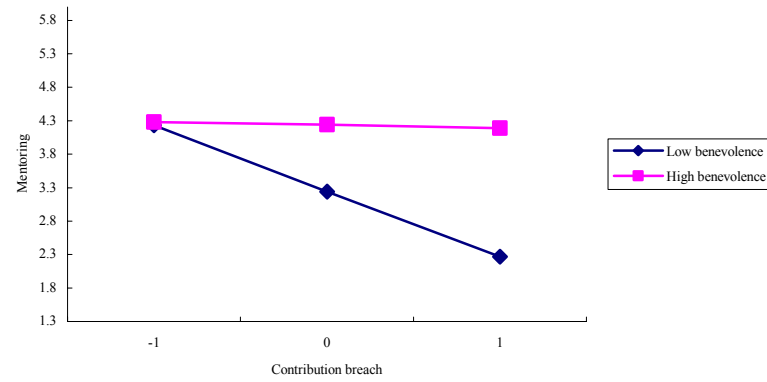
**FIGURE 2**  
**Inducement breach and OCBI by traditionality**



**FIGURE 3**  
**Inducement breach and productivity by traditionality**



**FIGURE 4**  
**Contribution breach and mentoring by benevolence**



**Appendix: Items Used to Measure Perceived Inducement Breach and Perceived Contribution Breach**

<b>Perceived Inducement Breach</b>	<b>Perceived Contribution Breach</b>
1. Opportunity for promotion	1. Work fast and efficiently
2. A job in which you can make decisions by yourself	2. Assist his/her colleagues in their work
3. A job with responsibilities	3. Deliver qualitative work
4. Wage increases based on your performance	4. Share information with his/her colleagues
5. Regular benefits and extras	5. Work extra hours to get his/her job done
6. Respect for your personal situation	6. Protect confidential information about the company
7. The opportunity to decide for your self when you take your vacation	7. Remain with this organization for at least some years
8. Fair treatment	8. Develop new skills as needed
9. Training	9. Perform his/her job in a reliable manner
	10. Deal honestly with company