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Violation of the Psychological Contract: The Mediating Effect of Relational Versus Transactional Beliefs

by

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Abstract:

The nature of employees' psychological contracts has gained relevance in the last decade due to changes in the employment relationship. However, little research has been conducted in Australia. The present study examined the psychological contracts of 90 MBA students in two Australian universities and the effects of contract violation on indices of organisational behaviour. Survey batteries, consisting of the Psychological Contract Scale, measures of commitment and trust, and of perceptions of contract violation, were administered. Findings indicated that the perception of contract violation was associated with lower organisational commitment and trust. Significantly, it was found that the impact of contract violation on commitment and trust was mediated by relational, but not by transactional, contract scores.

Keywords:

PSYCHOLOGICAL CONTRACTS; CONTRACT VIOLATION; RELATIONAL AND TRANSACTIONAL CONTRACTS.

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1. Introduction

The notion that employees and employers form assumptions about their mutual obligations is well known in the organisational behaviour and human resources literature. Indeed, central to a modern understanding of the workplace is the idea that some form of exchange occurs between parties in an employment relationship (Hecker & Grimmer 2006), and that the nature of the exchange process can have a strong influence on organisational outcomes (Rousseau 1989). In recent years, increased attention has turned to the psychological aspects of this relationship. In response to changes in the nature of employment and work, a large body of literature has emerged which has focussed on the concept of the 'psychological contract'. However, little research has been conducted in Australia. This paper examines psychological contracts in an Australian context and explores the effect that they may have on employees' organisational behaviour.

The nature and implications of employees' psychological contracts has become a major research focus in the last two decades (e.g. Rousseau 1989; Robinson, Kraatz & Rousseau 1994; Robinson & Rousseau 1994; Millward & Hopkins 1998; Turnley & Feldman 1999; Rousseau & Schalk 2000; Shore & Coyle-Shapiro 2003). Current employment trends, characterised by an increase in short-term employment contracts and a loss of job security, have resulted in a redefinition of career expectations and of the nature of the employment relationship (Millward & Brewerton 1999a; Kabanoff, Jimmieson & Lewis 2000; Lawler 2005). The current focus on company 'fitness' and 'flexibility' has led to a major shift in work and employment practices with direct implications for both individual employees and employing organisations. Millward and Herriot (2000), citing deregulation of the labour market, suggest the current rhetoric in the UK is that the old contract of security in exchange for loyalty has been replaced by a new contract of employability for flexibility. Sims (1994) states that the traditional expectation of 'cradle-to-grave' employment characterised by life-long employment in exchange for loyalty and commitment is no longer valid. Moreover, Hendry and Jenkins (1997) argue that the new era of uncertainty created by organisational restructuring has resulted in middle managers and professionals becoming the 'new insecure' (see also Atkinson 2002; Beaumont & Harris 2002). Herriot and Pemberton (1997) discuss the development of 'new deals', whereby employees no longer gain secure employment in return for offering loyalty, but rather exchange skill flexibility and hard work for simply having a job (see also Guest & Hoque 1994; Arnold 1996; McGovern, Stiles & Hope 1996; Millward & Herriot 2000; Lawler 2005). Similar developments can be observed in Australia, especially since the emergence of enterprise bargaining and the concomitant decline of unionism (Birmingham 1999; Morris 1999; Kabanoff, Jimmieson & Lewis 2000). These changes in the employment relationship have added impetus to the study of the psychological contract (Noer 1993; Guest 1998; Maguire 2002).

Psychological contracts in employment refer to 'an individual's beliefs regarding the terms and conditions of a reciprocal exchange agreement between that focal person and another party' (Rousseau 1989, p. 123). These beliefs can be highly subjective, and are affected by factors such as a person's upbringing, societal mores, and past experiences (Rousseau 2001). In essence, the psychological contract refers to the assumptions or expectations that both employees and employers have about their responsibilities to one another that go

beyond the formal employment contract (Rousseau & Schalk 2000). In other words, the psychological contract concerns beliefs *about* obligations, not the obligations themselves. Classical approaches to the psychological contract have considered both the employee and the employer as the ‘parties’ involved, however recent work has focussed more on the employee and their perceptions (Rousseau 1995, 1997; Coyle-Shapiro & Kessler 2000). Rousseau (1989) argues that a psychological contract emerges when an individual *perceives* that the contributions he or she makes obligates the organisation into reciprocity. Being a subjective construct, the parties to the relationship do not have to agree on, or even discuss, the ‘terms’ of any individual contract. This makes it difficult to manage. And whilst employees approach the employment relationship with a set of expectations about how the potential relationship may unfold, its dynamic nature also influences the possible outcomes (McFarlane-Shore & Tetrick 1994; Roehling 1997; Guest 1998; Millward & Herriot 2000).

1.1 Types of Psychological Contract

Two major types of psychological contracts have been evaluated: relational and transactional (e.g. Rousseau 1990, 1995; Herriot, Manning & Kidd 1997; Anderson & Schalk 1998; Millward & Hopkins 1998; Millward & Brewerton 1999b). Relational contracts characterise beliefs about obligations based on exchanges of socio-emotional factors (e.g. loyalty and support) rather than purely monetary issues. Akin to the traditional working ‘partnership’ between employee and employer, a relational-type relationship can engender feelings of affective involvement or attachment in the employee, and can commit the employer to providing more than purely remunerative support to the individual with investments like training, personal and career development, and provision of job security. Transactional contracts, by contrast, centre on short-term monetary agreements with little close involvement of the parties. Employees are more concerned with compensation and personal benefit than with being good organisational citizens. Rousseau and McLean Parks (1993) argue that these contract types differ with respect to focus, time-frame, stability, scope and tangibility. Relational contracts tend to describe perceived obligations that are emotional and intrinsic in nature, whilst transactional contracts describe obligations that are economic and extrinsic. Relational contracts are seen to have an open-ended, indefinite duration whilst the time frame for transactional contracts is more specific and short-term. Consequently, transactional contracts are also said to be static whilst relational contracts are dynamic and evolving. In addition, the scope of relational contracts is more general and pervasive, subject to clarification and modification as circumstances evolve. Relational contracts are, therefore, more subjective and less tangible in comparison to transactional contracts. Millward and Herriot (2000) point out, however, that the transactional-relational divide is not necessarily an exclusive one. They suggest that the exchange relationship is better characterised as containing varying degrees of *both* relational and transactional elements. In other words, individuals are not one versus the other and can instead have elements of both types in their own individual psychological contract (see also Robinson, Kraatz & Rousseau 1994).

1.2 Psychological Contract Violation

The psychological contract has attracted much research attention, in terms of its nature, antecedents, consequences, relevance and cultural underpinnings (e.g. Andersson 1996; Thomas & Anderson 1998; Cavanaugh & Noe 1999; McDonald & Makin 2000; Michael 2001; Rousseau 2001; Maguire 2002; Tekleab & Taylor 2003; Thomas, Au & Ravlin 2003). One particular research avenue has concerned investigating the effect of violations or breaches of the psychological contract (e.g. Robinson, Kraatz & Rousseau 1994; Robinson & Rousseau 1994; Robinson 1996). Wolfe-Morrison and Robinson (1997) suggest two conditions that may give rise to the perception of violation. The first is renegeing on a 'deal' by the employer, where obligations owed are knowingly left unfulfilled, due to either inability or unwillingness on the behalf of the employer to fulfil what was promised. Secondly, perceptions of violation may arise due to incongruence. Here, the issue is not an obvious violation but rather an inconsistency in the perceptions of either party as to the nature of mutual obligations. The reaction to violation in either circumstance is dependent on the actual perception of its occurrence (Wolfe-Morrison & Robinson 1997). In this regard, employees may not perceive violation if they do not attend to it or recognise it as such.

Robinson and Rousseau (1994) argue that contract violation is a serious issue that occurs more often than not. In their study of MBA alumni, they found that over half their sample (54.8%) felt that their employer had at some stage violated their psychological contract. They also demonstrated that the perception of violation was negatively related to an employee's trust in their employer, satisfaction with their job and organisation, intent to remain with the employer, and positively associated with actual turnover. Robinson (1996) further studied the effect of contract violation on trust amongst MBA students. She found that initial trust in one's employer was negatively related to the perception of contract breach. Those with low trust were more likely to look for incidents of violation, whilst those with higher trust were likely to overlook, forget or not recognise the violation. Kickul (2001), in her study of small business employees who were also enrolled in a part-time MBA program, found that psychological contract violation was negatively associated with an employee's commitment and affect toward the firm, and positively related to intention to leave. Turnley and Feldman (1999), in a study of over 800 managers, found that psychological contract violation resulted in increased levels of exit, voice (e.g. whistle-blowing, grievance-filing), neglect (e.g. decrease in effort), and decreased levels of loyalty to the organisation. Coyle-Shapiro and Kessler (2000) suggest that when faced with contract violation, employees seek to remedy the imbalance in their relationship with their employers through the reduction of their commitment and their willingness to engage in organisational citizenship behaviour. Such an outcome was demonstrated by Van Dyne and Ang (1998) with respect to contingent workers in Singapore, who were found to have less affective commitment than regular employees and were less likely to engage in organisational citizenship behaviour.

1.3 Contract Type as a Mediator of Contract Violation

Research indicates that violation of the psychological contract, whilst 'in the eye of the beholder', can have a tangible effect within an organisational context (Shore & Tetrick 1994; Herriot & Pemberton 1997). There has been little work, however, on

the possible mediating effect that relational versus transactional expectations might have on the impact of contract violation on organisational behaviour outcomes such as commitment and trust. Robinson, Kraatz and Rousseau (1994), in their study of 96 MBA alumni, found that contract violations by the employer were associated with a decrease in employees' perceptions of their relational *and* transactional obligations, but that the effect on relational obligations was significantly greater. What this suggested was that those people with a greater degree of relational-type expectations in their psychological contracts were more disappointed by contract violations than those with a greater degree of transactional-type expectations. Though not investigated by the authors, the implication is that violation should thus have a greater impact on such organisational outcomes as commitment and trust for those with a higher proportion of relational versus transactional expectations. Cavanaugh and Noe (1999) attempted a partial application of this notion. They hypothesised that level of agreement with 'relational components of the new psychological contract' (Cavanaugh & Noe 1999, p. 324) would mediate the relationship between work experiences, such as the perception of obligation violation, and work outcomes, such as job satisfaction and intention to remain with the current employer. However, they were only able to find partial support for this hypothesis, potentially because of their limited definition and subsequent measurement the "new' relational" construct (which they defined only as encompassing personal responsibility for career development, expectations of job insecurity, and commitment to type of work). They were perhaps more accurately measuring the so-called new psychological contract of skill flexibility and hard work for employment, rather than the classical relational contract of socio-emotional exchange. In addition, Cavanaugh and Noe (1999) did not include any explicit measurement of transactional expectations in their study.

1.4 The Current Study

This paper will present the results of an exploratory study that investigated the psychological contracts of MBA students at two Australian universities. The research has three purposes:

1. The first is to evaluate the types of psychological contracts held by MBA students, using the classical relational and transactional dimensions. These contract types will be related to measures of organisational commitment and trust. Given the socio-emotional emphasis of relational-type expectations discussed above, it is predicted that relational scores will be positively correlated with organisational commitment and trust. Conversely, it is predicted that transactional scores will be negatively correlated with organisational commitment and trust.
2. The second purpose is to consider the effect of contract violation. The research reviewed has suggested that perceptions of violation are inversely related to organisational commitment and trust, and a relationship of this direction is predicted for the current study.
3. The third purpose is to assess the possible mediating effect of contract type, relational versus transactional, on the impact of contract violation. It is likely that the effect of perceived violation will be influenced by the nature of one's contract such that those employees whose psychological contracts contain

more relational elements will be more affected than those whose contacts contain more transactional elements. Thus, it is predicted that the relationship between contract violation and organisational commitment and trust will be mediated by relational scores but not by transactional scores.

2. Method

2.1 Participants

The participants were 90 students enrolled in Master of Business Administration (MBA) programs at the University of Tasmania and Monash University. The sample contained 41 males and 49 females, with an age range from 21 to 51 (mean = 33.12; SD = 8.13). All participants had work experience; full-time work experience ranged from 1 year to 33 years, with a mean of 13.03 (SD = 12.63). Slightly under half of the participants (44.3%) were in management positions (project managers, marketing managers, office managers, risk managers), and a further 9.1% in upper management (regional managers, general managers, state managers). The remaining 46.6% were in non-supervisory or non-management roles. The mean number of jobs held in the participants' working lives was 4.15 (SD = 2.69), with a mean of 3.51 years (SD = 3.20) in their current position. With respect to education, bachelor degrees or higher were possessed by most of the sample (86.1%), leaving 13.9% who had not completed education beyond high school prior to their enrolment in the graduate program.

2.2 Instruments

The survey battery contained a series of subsections pertaining to different aspects of the research (see appendix 2). To begin with, the battery included the 17 item shortened version of the Psychological Contract Scale (PCS) developed by Millward and Hopkins (1998), and the 15 item Organisational Commitment Questionnaire (OCQ) developed by Mowday, Steers and Porter (1979), both of which required participants to indicate the degree to which they agreed with the given statements on a 7 point scale which ranged from 1 (strongly disagree) to 7 (strongly agree). The PCS assesses the relational-transactional dimensions of the psychological contract, and produces a sub-scale score for each of these constructs. Millward and Brewerton (1999b) state that this scale is a valid means of operationalising the two dimensions and note its validation on five workplace samples (professionals from various companies, $n = 476$; telemarketing, $n = 144$; engineering, $n = 472$; insurance, $n = 882$; cinema, $n = 784$). Millward and Herriot (2000) also reveal that evidence for the construct validity of the sub-scales of the PCS has been obtained. Cronbach's alphas were gained for both sub-scales on the current data; each revealed an internal consistency just below the rule of thumb cut-off of 0.70 (relational = 0.65; transactional = 0.62) but were deemed reliable for use. As stated in the introduction, individuals can have high or low scores on both relational and transactional dimensions, or be high on one and low on the other.

The OCQ is the most commonly used scale of commitment due to its well-documented psychometric properties (Griffin & Bateman 1986; Meyer & Allen 1991). Mowday, Steers and Porter (1979) noted that the OCQ demonstrated satisfactory test-retest reliabilities and internal consistencies. Cronbach's alpha for

the OCQ with the current data revealed a very satisfactory level of internal consistency (0.93). The scale employs a three-dimensional conceptualisation of commitment involving affective, continuance and normative commitment. However, as Mowday, Steers and Porter (1979) themselves point out, the items on the scale are relatively homogenous with respect to the underlying construct they measure, that of attitudinal commitment, which involves a desire to remain in the organisation and the acceptance of organisational values (see also Meyer & Allen 1991; Ketchard & Strawser 1998). The items, when combined, therefore provide an average overall attitudinal commitment score: the higher the score, the higher the level of commitment.

After these two measures, the survey battery included 7 items relating to trust in one's employer, which were based on Robinson and Rousseau's (1994) study. Participants were asked to indicate the extent to which they agreed with the given items on a 5 point scale ranging from 1 (strongly disagree) to 5 (strongly agree). A combined trust score was calculated by averaging across the 7 items. The Cronbach's alpha for these items was 0.90, indicating a high internal reliability. Questions concerning perceived violation of participants' psychological contracts followed. Following Robinson and Rousseau (1994), violation was first assessed by asking participants to indicate, yes or no, whether they felt their employer had ever failed to meet the obligations owed to them. Participants were also invited to provide further details. In addition to this dichotomous measure, participants were asked to assess the extent to which they felt their expectations had been fulfilled, on a 5-point scale ranging from 1 (very poorly fulfilled) to 5 (very well fulfilled). This was to provide a continuous measure that could be used in correlation and regression analyses. Participants were further asked to indicate whether they felt their employer had ever *exceeded* the obligations owed to them, and prompted to provide more information. Finally, participants were asked for some basic demographic information including gender, age, years spent in the full time workforce, number of positions held during this time, position title, years spent in this job, and highest level of education completed prior to MBA enrolment.

2.3 Procedure

The survey battery was given to participants on MBA class days. A brief outline of the study was presented and volunteers were then asked to fill out and return the survey. Participants were instructed to answer the questions with a specific employer, current or otherwise, in mind. It was emphasised that the results of the surveys would be completely confidential and that all findings would be reported in a generalised way so as to ensure anonymity.

3. Results

3.1 Types of Contract

Participants were found to have higher scores on the relational sub-scale versus the transactional sub-scale of the PCS. Relational scores ranged from 1.83 to 6.43 (out of a possible 7), with a mean score of 4.29 (SD = 0.97). Transactional scores, on the other hand, ranged from 1.4 to 5.6, with a mean score of 3.24 (SD = 0.94). This difference was found to be significant using a paired-samples *t*-test ($t(89) = 6.39$,

$p < 0.001$). In this regard, the participants were more likely to hold relational-type expectations regarding their focal employment than transactional expectations. These psychological contact scores were then correlated with scores for organisational commitment and trust (see in table 1).

Table 1
Correlations between Psychological Contract Variables and Organisational Behaviour Indices

	Fulfilment of Expectations	Relational	Transactional	Commitment
Relational	0.537*			
Transactional	-0.106	-0.317*		
Commitment	0.506*	0.683*	-0.326*	
Trust	0.406*	0.486*	-0.152	0.595*

Note: * Significant at $p < 0.01$

Relational scores were positively correlated with organisational commitment ($r = 0.683, p < 0.01$), and with trust in one’s employer ($r = 0.486, p < 0.01$). Hence, higher relational scores were associated with higher commitment to the employing organisation and higher trust in the employer. Transactional scores, on the other hand, were only found to be correlated with commitment ($r = -0.326, p < 0.01$). This indicated a negative relationship such that higher transactional scores were associated with lower commitment to the employing organisation. No such relationship was found with the trust variable. In addition, a moderate negative correlation was found between the relational and transactional sub-scale scores ($r = -0.317, p < 0.01$); this may suggest that they are not independent constructs after all.

3.2 Contract Violation

As stated earlier, perceived violation of psychological contract was assessed using two measures. In regard to the first measure, ‘Has or had your employer ever failed to meet the obligations(s) you felt were promised to you?’, 53.3% of participants indicated in the affirmative. Reasons supplied for this centred around issues such as: promises of potential for development; pay/benefits disputes; failure to pay for education/MBA; failure to provide opportunity for input; OHS problems, and being given false information. In regard to the second measure, the extent to which they felt their expectations had been fulfilled by their employer, the mean score out of a possible 5 was 3.38 (SD = 1.02), which was in the range between ‘moderately fulfilled’ and ‘well fulfilled’. There were 43.2% of participants who indicated that their expectations were either ‘well fulfilled’ or ‘very well fulfilled’. A one-way ANOVA was conducted with the dichotomous violation measure as the independent variable and perceived level of fulfilment of expectations as the dependent variable. As might have been expected, it was found that those participants who indicated that their employer had failed to meet their obligations

had significantly lower levels of perceived fulfilment than those who indicated that their employer had met their obligations ($F(1,79) = 17.15, p < 0.001$). The additional question asking participants whether their employer had ever exceeded the obligations they felt were owed to them, revealed that 34.2% answered in the affirmative. Reasons given for this centred around issues such as: flexible working conditions (e.g. working hours, emergency leave); payment of MBA, and being provided with good training and development.

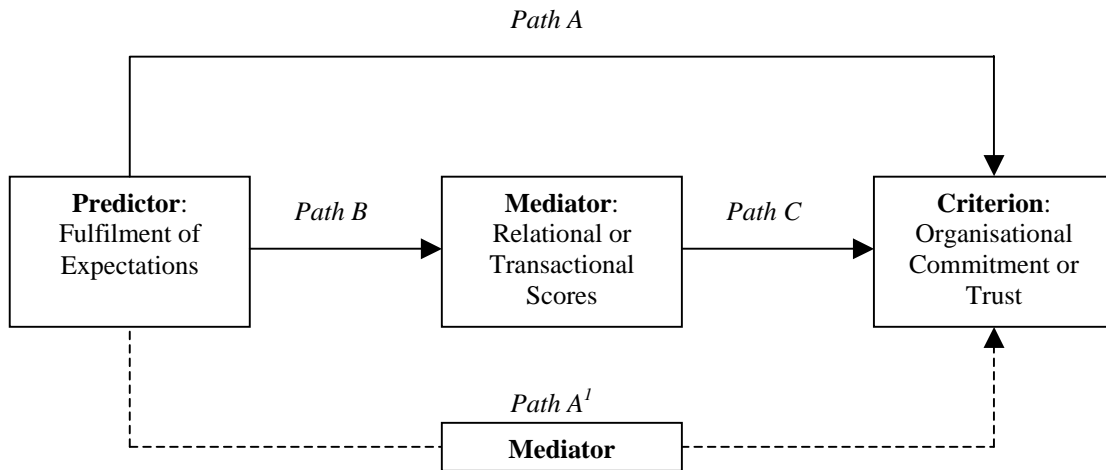
The effect of an employer's perceived failure to meet obligations on organisational commitment and trust was examined in two one-way ANOVAs. There was not found to be any difference between those participants who indicated that their employer had failed to meet obligations and those who did not in terms of organisational commitment ($F(1,88) = 3.15, p > 0.05$) or trust ($F(1,88) = 1.19, p > 0.05$). However, correlation analysis revealed that the extent to which participants felt their expectations had been fulfilled by their employer was positively correlated with both organisational commitment ($r = 0.506, p < 0.01$) and trust ($r = 0.406, p < 0.01$) (see table 1). Hence, those participants who indicated that their employers had fulfilled their expectations were more likely to be committed to their employing organisation and to trust their employer.

The relationship between perceived fulfilment of expectations and the two psychological contract scores can also be seen in table 1. There was found to be a positive correlation between relational scores and perceived fulfilment of expectations ($r = 0.537, p < 0.01$), indicating that those with high relational scores were also more likely to state that their expectations had been met. On the other hand, there was no significant correlation between transactional scores and perceived fulfilment of expectations, indicating that these two variables were not related.

3.3 Contract Type as a Mediator of Contract Violation

In order to determine whether the impact of contract violation on organisational commitment and trust was mediated by relational versus transactional scores, two series of regression analyses were performed (regression is the most common method used to test for mediation; see Baron & Kenny 1986; Frazier, Tix & Barron 2004). In both series of analyses, the predictor variable was the continuous measure of level of perceived fulfilment or lack of fulfilment of expectations, with organisational commitment being the criterion variable in one series, and trust in the other. In each case, the mediating effect of relational scores was assessed, followed by transactional scores, so as to determine whether these scores could be used to account statistically for the relationship between the predictor and the criterion variables (Baron & Kenny 1986). The process of determining mediation follows the model displayed in figure 1, and will be explained for each regression analysis in turn (see also appendix 2, where the results from each regression are presented using the same model). The fairly strong positive correlation that was seen between level of fulfilment of expectations and relational scores ($r = 0.537$) raised the issue of multicollinearity for the regression analyses. However, the correlation was not greater than the rule of thumb of $r = 0.700$ suggested by Tabachnick and Fidell (1983), and thus was considered acceptable.

Figure 1
Diagram of Predictor, Mediator and Criterion Relationships
 (adapted from Frazier, Tix & Barron, 2004)



In the first series of analyses, the possible mediating effect of relational scores (the mediator) on the relationship between fulfilment of expectations (the predictor) and organisational commitment (the criterion) was assessed. The first step in the process of determining mediation is to demonstrate a significant relationship between the predictor and criterion (*Path A*). This was found to be the case. Fulfilment of expectations was a significant predictor of commitment ($F(1,79) = 27.15, p < 0.001$). This produced an R-squared value of 0.256 indicating that 25.6% of the variance in commitment scores was attributable to fulfilment of expectations. This also produced a beta weight of 0.506 ($t = 5.21, p < 0.001$) indicating a positive relationship between fulfilment of expectations and commitment. The second step is to demonstrate a relationship between the predictor and the purported mediator (*Path B*). This was also found; fulfilment of expectations was a significant predictor of relational scores ($F(1,79) = 32.06, p < 0.001$). In this instance, the R-squared was 0.289 indicating that 28.9% of the variance in relational scores could be accounted for by fulfilment of expectations. The beta weight of 0.537 was also significant ($t = 5.66, p < 0.001$) and revealed a positive relationship. The third step is to demonstrate that the mediator is related to the criterion (*Path C*). This was also demonstrated; relational scores significantly predicted commitment ($F(1,79) = 60.73, p < 0.001$). The R-squared was 0.435 showing that 43.5% of variation in organisational commitment could be accounted for by relational scores. The beta weight of 0.659 was also significant ($t = 7.79, p < 0.001$) and revealed a positive relationship.

The final step in the process of demonstrating mediation is to show that when the effect of the presumed mediator is controlled for, the effect of the predictor is minimised or becomes insignificant altogether (*Path A'*). This was assessed using hierarchical multiple regression in which fulfilment of expectations was added to the equation after relational scores (as evaluated by *Path C*) to determine if it added significantly to the amount of variance accounted for in commitment. In this case,

fulfilment of expectations did add significantly to the equation (F-change (1,78) = 4.73, $p < 0.05$), indicating that relational scores was not a total mediator of the effect on commitment. However, the R-squared-change was only 0.032, indicating that the amount of additional variation accounted for was a minimal 3.2%. Further, the beta weight for fulfilment of expectations, when it was added after relational scores, dropped from its initial level of 0.506 to 0.213; this second beta weight was still significant ($t = 2.17$, $p < 0.05$) but demonstrates that the effect of the predictor was reduced when the mediator was introduced (that is, the relationship described in *Path A¹* was lower than in *Path A*). Thus, relational scores satisfied the requirements of being a partial mediator in the relationship between the level of perceived fulfilment of expectations and organisational commitment.

The same analysis was performed with fulfilment of expectations as the predictor and organisational commitment as the criterion, but substituting transactional scores as the possible mediator. The first step in the process was as described in the preceding analysis, that is, fulfilment of expectations was found to be a significant predictor of commitment (*Path A*). The second step sought to determine if there was a significant relationship between fulfilment of expectations (the predictor) and transactional scores (the mediator) (*Path B*). No relationship was found: fulfilment of expectations did not predict transactional scores (F (1,79) = 0.89, $p > 0.05$). Thus, transactional scores did not proceed beyond this step in the process of determining mediation and so were not found to be a mediator of the relationship between the level of perceived fulfilment of expectations and organisational commitment.

In the second series of analyses, the possible mediating effect of relational and then transactional scores (the mediators) was examined for the relationship between fulfilment of expectations (the predictor) and trust (the criterion). To begin with relational scores, the first step in the process sought to demonstrate a significant relationship between the fulfilment of expectations and trust (*Path A*), and this was found to be the case (F (1,79) = 15.56, $p < 0.001$). This produced an R-squared value of 0.165 indicating that 16.5% of the variance in trust scores was attributable to fulfilment of expectations. This also produced a beta weight of 0.406 ($t = 3.95$, $p < 0.001$) revealing a positive relationship between fulfilment of expectations and trust. The second step sought to demonstrate a relationship between fulfilment of expectations and relational scores (*Path B*) and so was identical to the corresponding step in the first series of analyses: fulfilment of expectations was a significant predictor of relational scores. The third step determined whether relational scores (the mediator) were related to trust (the criterion) (*Path C*). This was demonstrated, with relational scores significantly predicting trust (F (1,79) = 24.67, $p < 0.001$). The R-squared was 0.238 showing that 23.8% of variation in trust could be accounted for by relational scores. The beta weight of 0.488 was also significant ($t = 4.97$, $p < 0.001$) and revealed a positive relationship. The final step sought to determine the predictive capacity of fulfilment of expectations on trust, when the effect of relational scores were controlled for (*Path A¹*). In this case, fulfilment of expectations did not add significantly to the equation (F-change (1,78) = 3.08, $p > 0.05$), revealing that relational scores was a total mediator of the effect on trust. The R-squared-change was found to be 0.029, indicating that the amount of additional variation accounted for was only 2.9%. The beta weight for fulfilment of expectations, when it was

added after relational scores, dropped from its initial level of 0.406 to 0.202, and was not significant ($t = 1.76, p > 0.05$), showing that the effect of the predictor was reduced when the mediator was introduced (that is, the relationship described in *Path A'* was lower than in *Path A*). Thus, relational scores satisfied all the requirements of being a mediator in the relationship between the level of perceived fulfilment of expectations and trust.

The same analysis was performed with fulfilment of expectations as the predictor and trust as the criterion, but substituting transactional scores as the possible mediator. The first step in the process, as above, showed that fulfilment of expectations was a significant predictor of trust (*Path A*). The second step sought to determine if there was a significant relationship between fulfilment of expectations (the predictor) and transactional scores (the mediator) (*Path B*). As with the first series of analyses, no relationship was found: fulfilment of expectations did not predict transactional scores. Thus, transactional scores did not proceed beyond this step in the process of determining mediation and so were not found to be a mediator of the relationship between the level of perceived fulfilment of expectations and trust.

4. Discussion

The aim of the current study was to extend the field of investigation of psychological contracts within an Australian context by examining MBA students at two Australian universities. It was found that participants were more likely to hold relational-type expectations regarding their employment than transactional expectations. In some respects this is contrary to current thinking which indicates a trend in employment relationships and HR practices to more specified and less open-ended expectations, and well as a general negativity towards the notion of ever expecting job security within an organisation (Hendry & Jenkins 1997; Kabanoff, Jimmieson & Lewis 2000; Millward & Herriot 2000). Perhaps the nature of the MBA sample was such that it contained a higher degree of people who experienced a socio-emotional link to their employing organisation. This may have been due to self selection factors. Millward and Brewerton (1999b) found that transactional psychological contracts were more prominent amongst contract workers; it might be argued that the importance of relational contracts as demonstrated in this study is of most relevance to managerial employees or employees with managerial aspirations as might be the case amongst MBA students. Nevertheless, it may be the case that arguments for a fundamental shift in the nature of employees psychological contracts (eg. Sims 1994; Herriot & Pemberton 1997; Kabanoff, Jimmieson & Lewis 2000; Millward & Herriot 2000; Atkinson 2002) have been overstated, and that employees continue to experience contracts that contain both transactional *and* relational elements.

As predicted, it was found that relational scores were positively correlated with organisational commitment and trust. The nature of the relational contract dimension suggests that this should be the case, as it is seen to have an open-ended, indefinite duration and to describe an employment relationship characterised by loyalty and support (Rousseau & McLean Parks 1993). The expected relationship between transactional scores and commitment was found, but not between transactional scores and trust. In terms of the current sample, it seems that a

transactional orientation is associated with lower organisational commitment, but is unrelated to trust. That is, someone with a high transactional score experiences lower commitment, but could experience either high or low trust. A negative correlation was found between relational and transactional scores, suggesting that low scores on one were associated with high scores on the other. However, as the correlation was only moderate ($r = -0.317$), this does not negate Millward and Herriot's (2000) argument that individuals can have both relational and transactional elements to their psychological contracts.

The current study also supported Robinson and Rousseau's (1994) findings relating to the perception of contract violation and contract fulfilment. Robinson and Rousseau found that a majority of MBA participants (54.8%) felt that their psychological contract had been violated at some stage. Similar results were seen in the current study with 53.3% of the participants reporting violation of their psychological contract. The notion of contract violation being normal is thus generalisable to an Australian context. On the basis of the open-ended explanations offered by participants, many of the reasons given concerned the employer renegeing on promises made during recruitment and induction, as well as the employer not meeting initial expectations regarding career opportunities. This suggests that it is essential to manage successfully and fully the entry of a new employee into the organisation (on this point see Rousseau & Greller 1994; Sims 1994; Buckley, Fedor, Carraher, Frink & Marvin 1997). It was also found in the study that 43.2% of participants indicated that their expectations were either 'well fulfilled' or 'very well fulfilled' by their employer, and that at some point the obligations they perceived their employer owed to them were exceeded. On the one hand this may indicate that participants took the dichotomous item relating to failure to meet obligations too lightly. On the other hand, it may indicate that violation *and* over-compensation with respect to perceived obligations are both valid and frequent occurrences in the workplace. Thus, psychological contracts and their violation may be multifariously experienced by employees. Personal differences with regard to experiences may also play a part here in the way perceptions of obligations arise. In addition, it may have been the case that the fulfilment of expectations question could have been read as fulfilment of *any* expectations, even if they were high or low, positive or negative. However, there is some comfort in the finding that those participants who indicated that their employer had failed to meet their obligations were less likely to say that their expectations had been fulfilled.

The prediction that the perception of violation would result in lower commitment and trust was only partially supported. There was not found to be any difference between those participants who indicated that their employer had failed to meet obligations and those who did not in terms of these measures. This is not consistent with previous research showing that failure to meet perceived obligations results in lower commitment and trust (e.g. Robinson and Rousseau 1994; Robinson 1996; Kickul 2001). However, there was a significant positive correlation between the perceived fulfilment of expectations and both commitment and trust. It may be argued that perception of breach does not have as long lasting effect on an individual's commitment and trust in their employer versus the more general feeling of expectations being fulfilled. That is, the experience of breach

may be more transitory, and its effect able to be outweighed by an overall assessment of the extent to which the employee's expectations are met.

Arguably the most interesting finding in the current research concerned the mediating effects of contract type on the relationship between perceived fulfilment of expectations and organisational commitment and trust. It was predicted that the effect of perceived fulfilment or lack of fulfilment of expectations would be influenced by the nature of the psychological contract such that those employees whose contracts contain more relational elements would be more affected than those whose contracts contain more transactional elements. This was supported. In the first case, relational scores were found to be correlated with fulfilment of expectations, however, no such relationship was found for transactional scores. Hence, employees transactional scores appear to be unaffected by a failure or otherwise of an employer to fulfil expectations. This is consistent with descriptions of the relational and transactional dimensions. It is logical that the socio-emotional employment relationship of the relational contract would be more obviously influenced by the perception of an employer meeting or not meeting an employee's expectations, than the economic relationship of the transactional orientation. Those with a preponderant transactional orientation are probably more short-term focussed and tend to have less close involvement with their employer; as long as the economic exchange is not compromised, it might be argued that there will be no systematic sequelae to the perception of violation or of fulfilment. Indeed, there is an argument to be made that transactional beliefs do not, therefore, represent a 'psychological contract' as such, a point alluded to by Arnold (1996). A transactional contract may simply represent the absence of a relational contract, rather than being a construct in its own right.

This interpretation is supported by the finding that relational scores mediated the effect of fulfilment of expectations on organisational commitment and trust, but transactional scores did not (albeit only being partial mediation for organisation commitment). This indicates that relational scores act as a mechanism through which the perception of fulfilment of expectations affects the outcomes of organisational commitment and trust; that is, it is the relational-type expectations which are explaining the effect, not the transactional-type expectations. This suggests that those individuals who have more relational elements in their psychological contract experience a stronger relationship between perceived level of contract fulfilment and commitment and trust than those who have more transactional elements. In other words, employees with a more relational orientation will be more disappointed by the lack of contract fulfilment than those with a more transactional orientation. Relational orientation, therefore, has an important mediating effect on the consequences of contract fulfilment. This is a finding which has been hinted at (e.g. Cavanaugh & Noe 1999) but not reported in previous research on psychological contracts and thus represents a unique contribution to the field.

5. Conclusion

The current research represents a preliminary investigation in an Australian context. The sample size was not a large one, and it could be argued that the usefulness of the results is compromised by the voluntary participation of the

participants. The most serious problem with a small sample size is, however, one of statistical power rather than the incorrect rejection of the null hypothesis (Keppel 1982). In this regard, the positive findings of the research are not likely to have been confounded, though it should be allowed that further research using a larger sample size might reveal stronger relationships. In addition, the importance of the relational dimension, as demonstrated in this study, might be most relevant to the managerial or management-track employees of the sample, and not necessarily applicable to other types of employees. Thus, the current research may not generalize beyond this type of sample. Further research in this area needs to be conducted to examine the state of the psychological contract in other Australian samples considering different industries and demographics. The current employment environment shows trends more in line with the transactional dimension (Millward & Brewerton 1999a; Kabanoff, Jimmieson & Lewis 2000; Millward & Herriot 2000). A different sample might yet demonstrate a shift towards this type of employment relationship.

Further debate regarding the strategic role HRM can play in managing the psychological contract is needed in Australia which has, generally speaking, received little attention with regard to this issue. This study has demonstrated that psychological contracts are related to factors that affect the behaviour of employees in the workplace. It has been found that the relational dimension of the psychological contract, as opposed to the transactional, appears to be an important mediator with regard to the effects of contract violation on the organisational outcomes of commitment and trust. This is a notable finding and presents a clear avenue for future research. It may indeed be the case that the transactional construct, as suggested, does not represent a type of psychological contract at all. This has strong implications for any research using the relational-transactional dichotomy. A larger sample from a range of professions and occupations might provide a basis for more robust factor analytic analysis to further illuminate the nature of the structure of psychological contracts. It is perhaps too simplistic, for a variety of reasons, to argue that what HR managers need to do is foster relational contracts amongst their employees (Sims 1994; Arnold 1996; Grant 1999; Sparrow & Cooper 1998; Lawler 2005). However, it still remains necessary to manage the level of congruence between employee and employer expectations such that HR outcomes can be maximised.

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Appendix 1

Survey Items

A. *Psychological Contract Scale (Millward & Hopkins 1998)*

Answered on a 7 point scale which ranged from 1 (strongly disagree) to 7 (strongly agree).

Relational items: 3, 5, 8, 10, 13, 16 and 17. Transactional items: 1, 2, 4, 6, 7, 9, 11, 12, 14 and 15.

1. I do this job just for the money
2. I prefer to work a strictly defined set of working hours
3. I expect to gain promotion in this company with length of service and effort to achieve goals
4. It is important not to get too involved in your job
5. I expect to grow in this organisation
6. I expect to be paid for any overtime I do
7. I come to work purely to get the job done
8. I feel part of a team in this organisation
9. My loyalty to the organisation is defined by the terms of my contract
10. I feel this company reciprocates the effort put in by its employees
11. I only do what is necessary to get the job done
12. I am motivated to contribute 100% to this company in return for future employment benefits
13. I have a reasonable chance of promotion if I work hard
14. My career path in the organisation is clearly mapped out
15. I work to achieve the purely short term goals of my job
16. I will work for this company indefinitely
17. I am heavily involved in my place of work

B. *Organisational Commitment Questionnaire (Mowday, Steers & Porter 1979)*

Answered on a 7 point scale which ranged from 1 (strongly disagree) to 7 (strongly agree).

1. I am willing to put in a great deal of effort beyond that normally expected in order to help this organisation to be successful
2. I talk up this organisation to my friends as a great organisation to work for
3. I feel very little loyalty to this organisation
4. I would accept almost any type of job assignment in order to keep working for this organisation
5. I find that my values and the organisation's values are very similar
6. I am proud to tell others I am part of this organisation
7. I could just as well be working for a different organisation as long as the type of work there were similar
8. This organisation really inspires the best in me in the way of job performance
9. It would take very little change in my present circumstances to cause me to leave this organisation
10. I am extremely glad that I chose this organisation to work for over others I was considering at the time
11. There's not too much to be gained by sticking with this organisation indefinitely
12. Often, I find it difficult to agree with this organisation's policies on important matters relating to its employees
13. I really care about the fate of this organization
14. For me this is the best of all possible organisations for which to work
15. Deciding to work for this organisation was a definite mistake on my part

C. Trust Scale (Robinson & Rousseau 1994)

Answered on a 5 point scale which ranged from 1 (strongly disagree) to 5 (strongly agree).

1. I am not sure I fully trust my employer
2. My employer is open and up front with me
3. I believe my employer has high integrity
4. In general, I believe my employer's motives and intentions are good
5. My employer is not always honest and faithful
6. I don't think my employer treats me fairly
7. I can expect my employer to treat me in a consistent and predictable fashion

D. Violation / Breach Items (Robinson & Rousseau 1994)

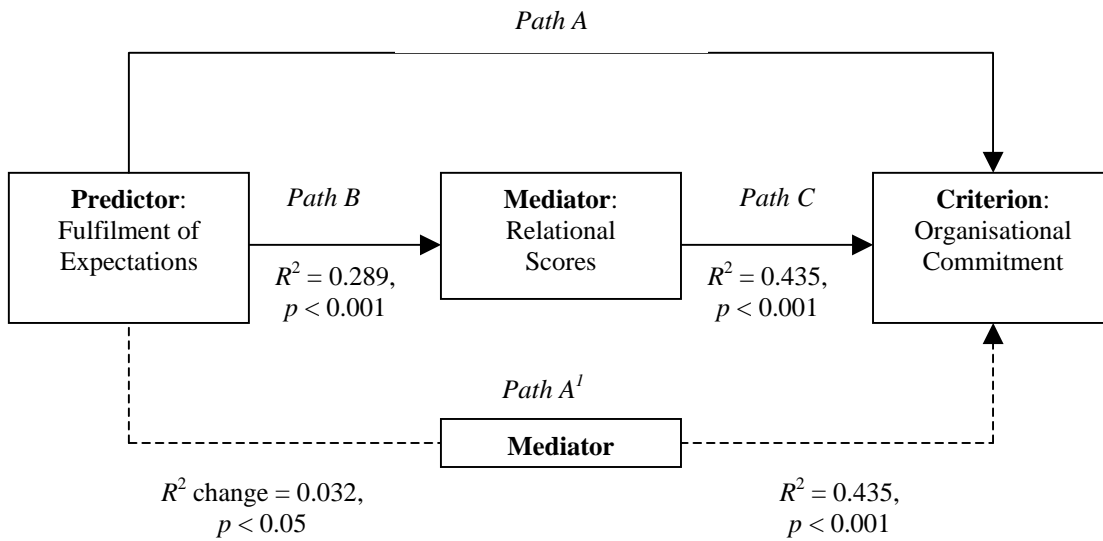
1. Has or had your employer ever failed to meet the obligation(s) you felt were promised to you? (Yes/No)
2. Overall, to what extent do you feel your expectations have been/were fulfilled by your employer? (1 (very poorly fulfilled) to 5 (very well fulfilled))
3. Has or had your employer ever *exceeded* the obligations you felt were owed to you? (Yes/No)

Appendix 2

Regression Analyses Testing Contract Type as a Mediator of Contract Violation

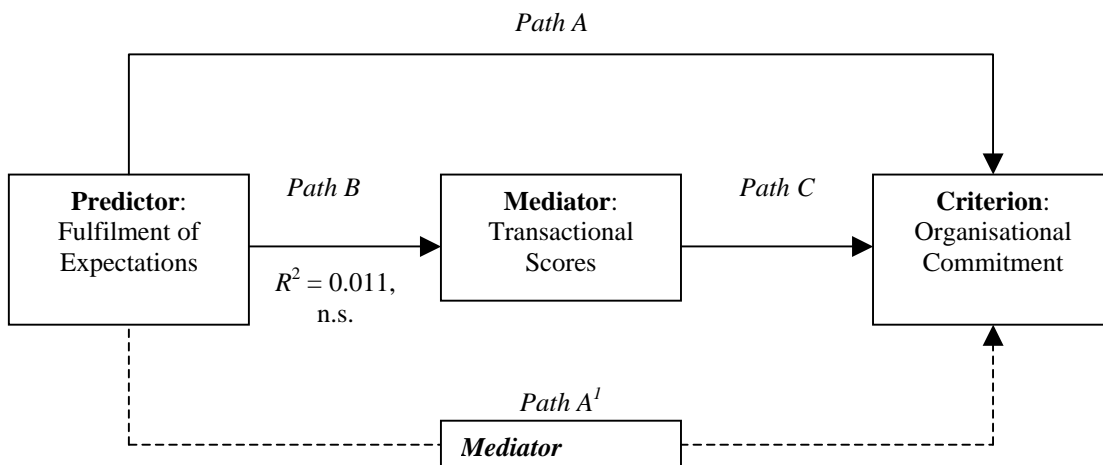
Regression One:

Predictor = Fulfilment of Expectations
 Criterion = Organisational Commitment
 Mediator = Relational Score



Regression Two:

Predictor = Fulfilment of Expectations
 Criterion = Organisational Commitment
 Mediator = Transactional Score

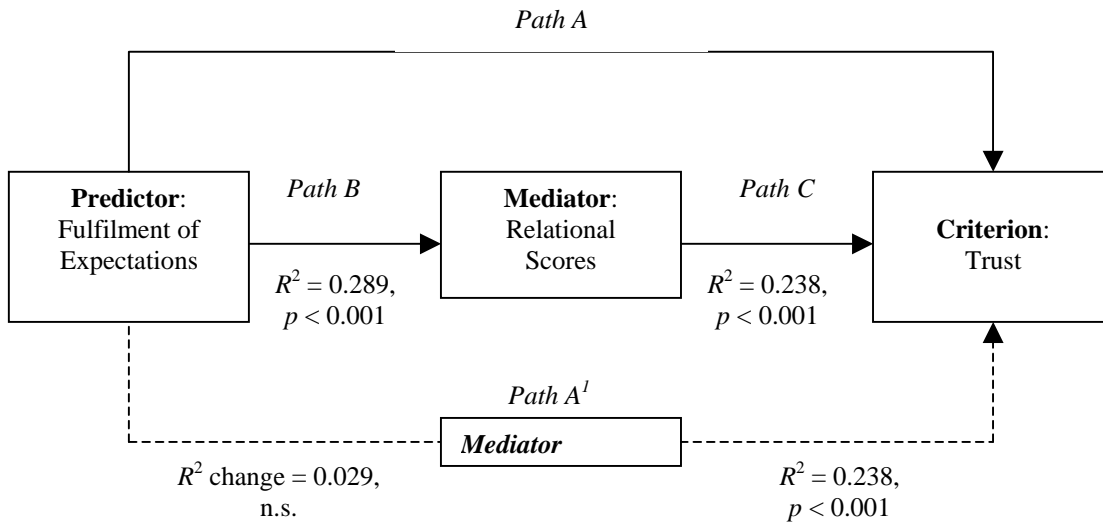


Regression Three:

Predictor = Fulfilment of Expectations

Criterion = Trust

Mediator = Relational Score



Regression Four:

Predictor = Fulfilment of Expectations

Criterion = Trust

Mediator = Transactional Score

