



# The relative impact of attribute, severity, and timing of psychological contract breach on behavioral and attitudinal outcomes



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## ARTICLE INFO

### Article history:

Received 14 August 2012

Received in revised form 21 June 2013

Accepted 26 June 2013

Available online 10 July 2013

### Keywords:

Buyer–supplier relationships  
Behavioral supply chain management  
Psychological contracts  
Fairness  
Psychological experiment

## ABSTRACT

A psychological contract defines the perceived reciprocal obligations that characterize a relationship between an individual and organizational entity. Breach of a psychological contract can negatively affect work behaviors and attitudinal perceptions, and may also elicit an emotional response (violation) which can help to explain these negative consequences. This research focuses on the role of psychological contracts in a supply chain setting. We explore when and how three conditions of psychological contract breach – attribute, severity, and timing – negatively impact outcomes, and assess the mediating role of psychological contract violation in this relationship. To evaluate our hypotheses, we employ a laboratory experiment in which participants assume the role of a purchasing manager. We impose various breach factors and observe their relative impact on the decision-making behavior and fairness perceptions of the participant. We show that while the breach factors significantly impact task behavior, these relationships are not explained by psychological contract violation. However, violation is useful in explaining, in part, the results pertaining to fairness perceptions.

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## 1. Introduction

Much of the business conducted in supply chain exchanges is governed by written contracts. However, previous research has shown that the proclivity of organizational decision-makers to reference the written or formal contract when differences arise is rather low, effectively increasing the relevance of social, relational, and psychological contracts in supply chain governance (Handley and Benton, 2009; Kaufmann and Stern, 1988; Lumineau and Henderson, 2012; Ryall and Sampson, 2006). Recent research investigating such behavioral factors in supply chain contexts adds further credence to their importance. Factors such as trust (Byoung-Chun et al., 2011; Johnston et al., 2004), cooperation (Jiang, 2009; Tangpong et al., 2010), and communication (Eckerd and Hill, 2012; Prahinski and Benton, 2004) are all found to influence decision-making behavior. Other research has shown that relational factors, such as fairness and justice, can impact supply chain relationships in meaningful ways (Griffith et al., 2006; Katok and Pavlov, 2013; Liu et al., 2012). Our work contributes to this important stream of research by investigating the role that psychological contracts play

in decision-making behavior, and overall fairness perception, in a purchasing context.

Specific decision-making tasks within inter-firm exchanges are typically carried out by individuals, such as purchasing managers (PMs), who independently form their own interpretation of the exchange agreement. This introduces a distinctly psychological element into contractual relations, written and unwritten alike, wherein the terms are understood in the eye of the beholder (Macneil, 1985; Rousseau and McLean Parks, 1992). This purely idiosyncratic view of exchange obligations is known as the psychological contract. When an individual perceives a failure in fulfillment of the psychological contract, this is known as psychological contract *breach*. These failures may also generate an emotional response, and this component is referred to as psychological contract *violation*.

Since psychological contract breaches may occur in supply chain relationships, it is important to understand the impact of different types of breaches to better predict their consequences. The conditions of psychological contract breach that we focus on in this research include the attribution, severity, and timing of the breach. We examine the relative impact of each of these breach factors on an individual PM's behavioral and attitudinal outcomes, and assess the extent that these outcomes may be explained by the emotions associated with violation of the psychological contract. We demonstrate that all three of the breach factors under evaluation have an impact on task behavior, but surprisingly these effects are not

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explained by the experience of violation. However, when considering the attitudinal outcome of fairness perception, the severity and attribution of a breach – but not the timing – impart a significant influence and these associations can be explained in part by the experience of violation. Our findings overall reveal that psychological contracts play a role in supply chain relationships and, as such, should be managed on the same order as other key exchange contracts.

This research contributes to the purchasing and supply chain literatures in several key ways. First, it provides insights into the decision-making behaviors and fairness perceptions exhibited by those assuming the role of a PM in response to a psychological contract breach. We compare the relative effects of various breach-inducing factors on these outcomes, and the potential mediating role of psychological contract violation. Research in operations and supply chain management exploring the role of emotions in work behaviors is nascent (see Bendoly, 2013, 2011; Urda and Loch, 2013), and we offer a substantive contribution on this front. Second, we depart from the traditional approach of evaluating exclusively construct-level outcomes (such as job satisfaction and civic virtue), and assess the impact of breach on a task behavior that is specific and quantifiable. Finally, we incorporate fairness perception as an outcome variable, which to the best of our knowledge has not been previously assessed. Our work is positioned within the broader framework for behavioral operations disciplinary research set forth by Bendoly et al. (2010), in that we adopt norms from social psychology in defining the variables of interest and in designing and executing the associated controlled experiments.

## 2. Theoretical development

### 2.1. Psychological contracts

A psychological contract is defined as the subjective conceptualization of an exchange agreement between parties. As such, psychological contracts are an individual's *idiosyncratic* interpretation of the terms of an exchange. Those terms may be overt or implied, written or orally exchanged, and commonly understood or not. Psychological contracts co-exist with other types of contracts, including written contracts (Shore and Tetrick, 1994). On the one hand, psychological contracts can help an individual to “fill in the gaps” where written contracts are incomplete or nonexistent. On the other hand, even written terms that appear well-defined can be subjectively interpreted to mean different things.

Psychological contract formation is a multi-phase phenomenon (Rousseau, 2001). When an individual first enters into an exchange relationship, the individual possesses a pre-conceived mental conceptualization of the general type of relationship. For example, prior to employment, workers typically have at least some abstract notion of the professional norms in their occupation and/or industry (Rousseau, 2001). Beyond this initial phase of psychological contract development, subsequent phases provide the requisite experience to further shape and stabilize the psychological contract (Rousseau, 2001). Research has demonstrated the diverse and evolving nature of psychological contracts of new hires, temporary workers, and long-standing employees (Millward and Hopkins, 1998; O'Neill and Adya, 2007; Rousseau, 1990). Conceptually, purchasing relationships follow comparable phases, and therefore psychological contract formation is expected to develop comparably in that domain.

Key underlying components of psychological contracts include promise and trust (Rousseau, 2001, 1989). A promise is defined as “communication of a commitment to a future course of action,” where the act of communicating need not take place explicitly (Rousseau and McLean Parks, 1992). Observation of actions over

time suffices to create a promise (Weick, 1981). This is an important concept, as many contemporary purchasing activities take place in online environments (Johnson and Whang, 2002; Rosenzweig, 2009), where there is little to no socialization between the purchasing agent and supplier. Additionally, there must be at least a general expectation that the reciprocal obligations will indeed be fulfilled; one should have some degree of confidence the other party will follow through on promises. This notion of vulnerability to another's actions, which are beyond control of the trusting person, is a common theme in the literature on trust (Deutsch, 1958; Rotter, 1967; Zand, 1972), and in supply chain contexts examining trust (Gattiker et al., 2007; Ireland and Webb, 2007; Zhang et al., 2011).

### 2.2. Psychological contract breach

Psychological contract breach occurs when an individual perceives insufficient fulfillment of obligations from an exchange partner. Breach refers to the *cognition* that the subjective terms of the psychological contract have been broken (Suazo, 2011). Morrison and Robinson (1997) present a framework in which they define the key variables likely to lead to cognition of breach. These factors are the root cause of the failure, the salience of the event, and the vigilance of the psychological contract holder (Morrison and Robinson, 1997), and each of these factors is multi-faceted.

The root cause of the failure describes why the psychological contract was broken. We define this as the attribution. In the psychological contract literature, numerous attributions for breach have been identified, including inadvertent, disruption, renegeing, and incongruence (Morrison and Robinson, 1997; Rousseau, 1995). The supply management literature has focused on the cause and effect of general contractual and relational breaches, as well. For example, in their analysis of supermarket supply chains, Morgan et al. (2007) found suppliers' opportunistic behaviors to be linked with increased use of “militant” behavior (for example, sabotage) within the supply chain, as well as decreased retailer performance. Supply disruption is another area that has received attention in the supply chain literature. In a study of disruption risk, Ellis et al. (2010) find that a credible threat of supply disruption (i.e., increased risk) is significantly related to PMS' search for alternate sources of supply.

The salience of the situation can also be important to the cognition of psychological contract breach. Morrison and Robinson (1997, p. 237) define salience as the “degree to which a stimulus stands out from its immediate context,” and may be heightened through increased size, importance, or vividness. The supply chain and channels literature is generally supportive of this notion in that conflict issues that are greater in size and stake tend to result in more aggressive resolution strategies because managers are particularly cognizant of the risks entailed in these situations (Dant and Schul, 1992). For example, Chopra and Sodhi (2004) discuss how a minor event, like a transportation delay, likely implies a less intense mitigation strategy than a major event, such as a supplier holding up a manufacturer to force a price increase.

An individual's vigilance will help determine whether an event is cognitively identified as a breach of the psychological contract, as well as whether an individual should respond to the breach (Morrison and Robinson, 1997). Various factors may motivate increased vigilance, including uncertainty or aspects pertaining to the nature of the relationship, such as trust (Morrison and Robinson, 1997). For example, entering into a new employment relationship is a situation of high uncertainty and low trust which is associated with increased vigilance (McLean Parks and Kidder, 1994). Similar concepts appear in the supply management literature. For example, trust is an important concept in defining the nature of a supply relationship (Doney and Cannon, 1997), and interorganizational trust is

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