



## Antecedents and consequences of psychological contracts: Does organizational culture really matter?

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### ABSTRACT

Exploring the role of psychological contracts, this study proposes that different organizational cultures are associated with relational psychological contracts compared to transactional contracts while both types of contracts serve as mediators. While clan cultures positively impact relational contracts and are negatively associated with transactional contracts, hierarchical cultures have the reverse effect. In addition, psychological contract types mediate the two culture types' relationship to both organizational commitment and employee yearly earnings. In sum, clan cultures relate to more positive organizational outcomes than hierarchical cultures, a finding which has implications for future research and practice.

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The relationship between employees and their organizations has often been described as an exchange relationship. As such, the psychological contract provides an explanatory framework for understanding employee-organizational linkages (McFarlane Shore and Tetrick, 1994). Little contribution has been made regarding antecedents to psychological contracts (Kickul and Liao-Troth, 2003; Raja et al., 2004) and in general research examining the organization's role in psychological contracts has been overlooked. Guest suggests that there are "potentially interesting questions about the role of the social construction of exchange relationships, the influence of organizational culture and climate..." (1998:658). We attempt to fill these voids by examining the role of psychological contracts as a mediator of the organizational culture to affective commitment and employee yearly earnings relationship.

Current research is necessary to uncover more information about the antecedents and consequences of psychological contracts. Guest (1998)

calls for research that focus on creating a model of the positive psychological contract process and in particular he suggests that such a model should be based on not only social exchange theory but transaction cost economics. Psychological contract research is often based on the basic tenets of social exchange theory. However, we believe that transaction cost analysis also provides support for the creation of such a model. In particular, social exchange theory (SET) emphasizes interactions that have the potential to generate high-quality relationships under certain circumstances (Cropanzano and Mitchell, 2005). Transaction costs are defined as "any activity which is engaged in to satisfy each party to an exchange that the value given and received is in accord with his or her expectations" (Ouchi, 1980: 13). Transaction cost analysis (TCA) highlights three modes that govern exchanges: markets, bureaucracies, and clans (Ouchi, 1980). These two theories, social exchange theory (SET), transaction cost theory (TCA) provide the foundation for our hypotheses.

Our research focuses on the relationships between organizational culture, psychological contracts, and organizational commitment. We hypothesize that psychological contracts mediate the relationship between organizational culture and affective organizational commitment as well as employee salary. In particular, we will draw from SET and TCA, including Ouchi's ideas about hierarchies and clans, as well as from Quinn's Competing Values Model (CVM) to support our hypotheses.

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## 1. Culture, contracts, and commitment

There have been many definitions of psychological contracts put forth in the literature. In fact, a special issue of the Journal of Organizational Behavior just a decade ago was devoted to this topic. Based on work by Rousseau & Tijoriwala (1998) and Guest & Conway (2002), we define psychological contracts as a set of reciprocal obligations or promises related to the employment relationship between an organization and an individual. "...by definition, a psychological contract is an individual perception" (Rousseau & Tijoriwala, 1998; 680). "The primary focus of the psychological contract is therefore the employment relationship at the individual level, between the employer and employee" (Guest & Conway, 2002; 545).

Two distinct types of psychological contracts have been identified (Rousseau, 1990). Principal factor analysis indicates there are two separate factors: transactional and relational contracts (Raja et al., 2004). Transactional contracts involve specific economic exchanges between the employer and employee. These contracts take place within a specified time period, usually with a short time orientation. Transactional contracts are often narrow in scope and definition (Rousseau, 1990). In addition, these contracts involve limited connection between the employee and employer (Raja et al., 2004). Relational contracts, on the other hand, are often based on non-economic/socio-emotional exchanges. They are open-ended and do not cover any specified time period. In addition, relational contracts may change over time with a broad scope and definition (Rousseau, 1990). Relational contracts revolve around trust, respect, and loyalty (De Meuse et al., 2001). It is important to note that while the promissory beliefs involved in transactional contracts are indeed a part of work in general; they are limited to these exchanges. Relational contracts may include economic exchanges but they also move beyond them to other non-economic promissory beliefs. Surprisingly, scholars have not given much attention to antecedents for the two, very different, types of psychological contracts. The next section stresses the relevance of organizational culture.

There have also been many definitions of organizational culture presented over the years. We define organizational culture as "the pattern of shared values and beliefs that help individuals understand organizational functioning and thus provides them with norms for behavior in the firm" (Deshpande and Webster, 1989:4). Quinn and colleagues' Competing Values Model is presented as the framework with which we will examine the organizational culture relationships presented in this study. Furthermore, we present our discussion of organizational culture within the competing values typologies created by Deshpande, Farley, and Webster (2000).

In particular, we focus on hierarchical and clan cultures as defined in the Competing Values Model. This model has been extensively studied and found to be a useful tool in differentiating organizations based on culture. We focus on these culture types because of their internal orientation and their more powerful effect on organization–employee relationships. Hierarchical cultures are characterized as being held together by formal rules and policies. They emphasize procedures and structure. Interactions are subjected to careful scrutiny, evaluation, and direction. Business effectiveness is characterized by consistency and control (Deshpande and Webster, 1989). In addition, hierarchical cultures are not very adaptive and are resistant to change. Clan cultures emphasize cohesiveness, participation, and team work (Deshpande and Webster, 1989). Clan cultures encourage horizontal communications and human relations. There is less emphasis on formal coordination and controlled decision making. Organizational members in clan cultures are focused on tradition and loyalty. It is important to point out that while these two cultural types appear on opposite ends of a continuum, organizations may contain characteristics of each.

### 1.1. Organizational culture and affective commitment

Previous research has examined the relationship between organizational culture and employee attitudes (e.g., Cameron and Freeman, 1991; Goodman et al., 2001; Quinn and Spreitzer, 1991; Zammuto and Krakower, 1991). Results suggest that organizational culture does indeed have an impact on employee attitudes such as job satisfaction, organizational commitment, turnover intentions, and morale. For example, McKinnon, Harrison, Chow, & Wu (2003) examined organizational culture and commitment. They found that organizational cultures based on respect for people, team orientation, and innovations were related to affective responses such as organizational commitment, job satisfaction, and propensity to stay. These values are characteristic of a clan culture. It makes sense that employees that feel appreciated, respected, and treated like family would be highly committed to the organization. Lok & Crawford (2001) also found that organizational culture was predictive of commitment in a study of hospital nurses. In particular, clan cultures are positively related to organizational commitment while hierarchical cultures are negatively related to organizational commitment (Goodman et al., 2001). We attempt to replicate the previous studies by presenting the following hypotheses. However, realizing that replication contributes to but not extends theory, we introduce a key objective criterion, yearly earnings, that most employees would consider an essential. We propose that organizational culture impacts not only individual level psychological constructs such as organizational commitment but also has implications for the reward system. A setting that places people at the forefront and is based on human relations such as the clan culture is more likely to invest in their employees as reflected in compensation. Consistent with TCT, hierarchical cultures provide a great deal of emphasis on cost reduction and efficiency. Thus, we propose such a culture will offer lower compensation. We propose that the clan culture which focuses on respect and relationship while also considering the economic exchange will reward their employees more than a hierarchical culture. We hope that the addition of yearly earnings as an important dependent measure and organizational behavior construct will stimulate future research on actual yearly salary.

**Hypothesis 1a.** Hierarchical organizational cultures are negatively related to affective organizational commitment.

**Hypothesis 1b.** Hierarchical organizational cultures are negatively related to yearly earnings.

**Hypothesis 2a.** Clan cultures are positively related to affective organizational commitment.

**Hypothesis 2b.** Clan cultures are positively related to yearly earnings.

### 1.2. Organizational culture and psychological contracts

Schein (1980) described the psychological contract as an exchange relationship between the employee and the organization. SET proposes that perceptions of the psychological contract are often contingent on the actions of another person, or in this case, the organization (Blau, 1964). In fact, the psychological contract provides a useful framework to explore the relationship between the organization and employee attitudes and behaviors (Sturges et al., 2005). The psychological contract is in fact, "an individual's belief regarding the terms and conditions of a reciprocal exchange agreement between the focal person and another party" (Rousseau, 1989; 123).

Guest's (1998) proposed model of the psychological contract includes several organizational antecedents, including organizational culture, that have yet to be examined. Based on this model, we suggest that organizational culture plays a vital role in the creation of the psychological contract. For example, both employees and organizations are responsible for carrying out the contract. The organization

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