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Dual roles in psychological contracts: When managers take both agent and principal roles

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ABSTRACT

Departing from the long-espoused assumption that managers act only as agents in employees' psychological contract with the organization, this paper asserts that in addition to the agent role, some managers, in an attempt to further their own self-interests, form and enact their own psychological contracts as principals with select employees. The combination of these dual roles often yields unacknowledged but significantly negative consequences for the employing organizations, the managers who choose a principal role, and the select employees with whom they form a psychological contract. Drawing upon agency, psychological contract, and social exchange theories, we develop the distinctive characteristics of the agent vs. principal roles, identify the antecedents that motivate managers to assume a principal role, develop four archetypes for combining the dual roles, and suggest the potentially harmful consequences for the above three parties mentioned. The paper concludes with theoretical and practical implications and suggestions for future research.

1. Introduction

Within the last 25 years, research on the psychological contract—defined as individual beliefs shaped by the organization regarding the terms of an exchange relationship between individuals and their organization (Rousseau, 1995)—has generated a significant body of knowledge. Important findings include the nature of obligations operating between parties (Montes & Irving, 2008), antecedents and consequences of contract violations (Deery, Iverson, & Walsh, 2006; Robinson & Morrison, 2000; Tekleab, Takeuchi, & Taylor, 2005), the impact of organizational change on the contract (Bellou, 2007; Cavanaugh & Noe, 1999; Turnley & Feldman, 1998), and more recently, the substance and effects of idiosyncratic contracts (I-Deals) between highly valued individual workers and their organization (Lei, Rousseau, & Chang, 2009; Rousseau, 2004; Rousseau, Ho, & Greenberg, 2006). Despite the considerable body of knowledge accumulated in this field, little theory and research to date has examined the roles immediate managers play in employees' psychological contracts.

We choose immediate managers (i.e. individuals at every level of the organization who have direct reports) to focus on because they have been shown to develop high levels of physical and psychological closeness with their direct employees through bonds that begin in recruitment and grow during their supervision of employees' day-to-day tasks. These bonds noticeably affect employees' perceptions of their psychological contracts (Bass, 1990; Krackhardt, McKenna, Porter, & Steers, 1981). The extant psychological contract literature has tended to treat immediate managers exclusively as *key agents representing the interests of organizations* with respect to the psychological contract between employees and organizations (e.g.,

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Conway & Briner, 2002; Lester, Turnley, Bloodgood, & Bolino, 2002; Robinson & Morrison, 2000; Tekleab & Taylor, 2003). However, several scholars have acknowledged that agents do not always act in the organization's best interests with respect to the terms of employees' psychological contract. For example, Rousseau (1995) proposed two types of contract makers—principals making contracts for themselves and agents acting for principals—and noted that agents (managers) may make commitments that are inconsistent with the principal's (the organization's) true intent. That is: “Is a manager who promises career development to a recruit speaking for himself or for the organization?” (Rousseau, 1995, p.62). Similarly, Coyle-Shapiro and Shore (2007) argued that “interests other than those of the organization may exert an important influence on the extent to which managers enact their role as organizational agents, for example, may make a promotion or hiring decision that is more aligned with their own self-interest than with the best interests of the organization” (2007, p.168).

These arguments indicate that relatively little research attention has been devoted to managers' tendency to maximize their self-interests while acting as the organization's agent in forming and implementing employees' psychological contract with the organization. This omission in the psychological contract literature is particularly noteworthy because many organizational behavior scholars have discussed the prevalence of self-interested behaviors in organizations, and have suggested mechanisms to promote cooperative behaviors (e.g., Grant & Patil, 2012; Meglino & Korsgaard, 2004). In light of this omission, we argue that some managers enact *both* the role of agent in employees' psychological contract with the organization *and* the role of a principal in forming their own psychological contract with chosen employees in order to pursue their personal agenda. Our conceptualization of the dual roles played by managers is an important addition to the psychological contract literature because it more accurately portrays the complex nature of “contract making” in a real world where managers increasingly possess considerable latitude in influencing employees' psychological contract with the organization (Rousseau, 1995, 2004; Rousseau et al., 2006) and where organizations find it difficult to monitor the behavior of the managers supposedly representing them in contract discussions (Eisenhardt, 1989).

Building on agency and social exchange theories to develop the theoretical framework of managers' dual roles within the psychological contract literature, we make several primary contributions to the existing literature. First, we challenge current thinking on managers' role in employees' psychological contract by drawing upon relevant theories as well as illustrative case examples. Second, we extend psychological contract theory by identifying the antecedents influencing managers' assumption of a principal role by forming their own psychological contracts with select employees. Further, we identify the different ways in which these managers combine the dual roles and suggest the potentially harmful consequences for all three parties—organizations, managers, and affected employees. Third, we call attention to the inherently gray areas in the psychological contract by offering a more complicated, but also more realistic, view of managers' roles vis-a-vis their employees' psychological contracts. Fourth, we draw on our dual role proposals to offer a supplementary explanation for employees' frequent reports of contract breaches in previous studies. Finally, we suggest human resource management interventions for constraining managers' assumption of a principal role and fruitful research directions for empirical studies of this topic. We begin to develop these contributions by examining the next section on the nature of managers' dual roles.

2. The nature of managers' dual roles

2.1. Agency theory

Agency theory focuses on the relationship between two parties—one, the principal who delegates work to another, the agent, who then performs the delegated work (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976). According to this theory, when principal and agent are involved in a collaborative relationship, two common problems are likely to occur: (1) agency conflict, where the interests of the principal and the agent diverge, making it increasingly difficult for the agent to remain committed to a role that is not perceived as meeting his/her own interests; and (2) information asymmetries, where it is difficult or expensive for the principal to verify whether the agent is actually fulfilling assigned duties and requirements. Divergent interests and information asymmetries contribute to the agency problem, whereby the agent does not always act in the best interests of the principal, but rather shirks his/her duties as agent or appropriates perquisites out of the firm's resources for his/her own consumption (Jensen & Meckling, 1976). Solutions to the agency problem include (1) the alignment of principal and agent interests through providing incentives to the agent in order to transfer the risk of outcome uncertainty to the agent (who tends to be more risk-aversive than the principal because agents are unable to diversify their employment while principals are capable of diversifying their investments) and (2) monitoring his/her behaviors through formal and informal information system (e.g., budgeting, management by objectives, and boards of directors, managerial supervision) to curb agent opportunism.

Researchers in the field of finance and economics, from which agency theory originated, have predominately examined the relationship between firm owners and top executives (e.g., Fama, 1980; Fama & Jensen, 1983; Hill & Phan, 1991; Jensen & Meckling, 1976). This is partly because they viewed the agency problem as one stemming from the separation of ownership and management in firms where agents who make important decisions often do not bear a substantial share of the firm's equity (e.g., Fama & Jensen, 1983; Jensen & Meckling, 1976). Nevertheless, the seminal work by Jensen and Meckling (1976) noted that “the problem of inducing an agent to behave as if he were maximizing the principal's welfare is quite general. It exists in all organizations and in all cooperative efforts at every level of management in firms.” (p.6). Thus, we note that the principal–agent relationship can be found in any situation, ranging from outside equity holder-entrepreneur (i.e., owner-manager) to top management-managers with no equity, where a principal depends on an agent to fulfill his/her duty. Hence, our ability to apply the framework of the agency problem to immediate managers working at various levels within the organization is not constrained by the extent to which they hold ownership in the firm.

The generality of the principal–agent framework (e.g., “the generality of the agency problem”, Jensen & Meckling, 1976, p. 6; “the ubiquitous agency relationship”, Eisenhardt, 1988, p.58) has allowed management scholars to extend agency theory to more diverse