“Psychological Contracts and Employee Outcomes in Transition to Market Economy: A Comparison of two Slovenian Companies”

AUTHORS	Robert Kaše Zupan Nada

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SECTION 2. Management in firms and organizations

Robert Kaše (Slovenia), Nada Zupan (Slovenia)

Psychological contracts and employee outcomes in transition to market economy: a comparison of two Slovenian companies

Abstract

Psychological contracts are mental models through which employment relationship information and experience are processed by individual employees. They affect employee satisfaction, commitment and guide their behavior ultimately influencing company performance. In transitional economies these contracts have been in the process of change. In the paper, attitude survey data from two Slovenian companies in late transition are extensively analyzed to examine the characteristics of psychological contracts in time of transition to market economy. The results suggest that: 1) employees in companies in suggested setting have not yet differentiated their expectations regarding transactional and relational returns, but rather express high levels of expectations on all categories; 2) the differences in psychological contracts are larger within the companies than between them, suggesting that it is not company-specific policy, but rather the perception of the general social contract that importantly shapes psychological contracts; 3) in case of breach employees do not tend to change the employer due to lack of alternatives in the labor market or because the breach is not seen as violation; 4) perceived realization (and not the expectation-realization gap) has the strongest impact on employee satisfaction and commitment; 5) pay dissatisfaction has an overriding effect on employee attitudes towards employer. These results imply that employers in transition economies should strive for more realistic psychological contracts and put more efforts in effectively designing and executing HR practices, especially compensation.

Keywords: psychological contracts, employee commitment, employee satisfaction, transition to market economy.
JEL Classification: M12.

Introduction

Companies around the globe constantly search for new sources of competitiveness in an increasingly demanding and changing business environment. The competitive situation has been even more complex for companies in transitional countries. On their way to an open-market economy companies in transition economies had to deal with privatization, searching for new markets and cost cutting. After more than a decade of transition most of these initial issues have been resolved in several European transition countries (especially those that became EU members) and now managerial challenges resemble those in other (developed) countries.

In search of competitiveness many regard people with their knowledge and creativity as the key force driving business performance. Consequently, human resource management (HRM) as a means of acquiring and retaining critical talent becomes an important element of strategic management. The main purpose is to develop employee capabilities and to assure high levels of employee motivation in order to achieve business goals. Past research has shown that psychological contracts play an important role in employee outcomes such as satisfaction, commitment and performance. In other words, when employees feel that the company fulfills their expectations they are willing to put more effort into achieving company goals. Employee expectations, which form the basis for psychological contracts, are shaped by various elements, including company human resource practices, individual preferences and social factors.

The purpose of this paper is to analyze psychological contracts and their effects on employee outcomes in times of transition to market economy. Based on the data from employee attitude surveys in two Slovenian companies in late transition we want to find out, which types of psychological contracts exist among Slovenian employees, which factors have the most influence on shaping these contracts, and what are the consequences of contract breach for employee satisfaction and commitment (if one exists).

The remainder of the paper is organized in the following way. We first introduce the construct of psychological contract and note the implications for psychological contracts in companies in transitional economies. We proceed by stipulating research hypotheses and presenting the methodology. Then a detailed report of the results of our study is provided. We conclude by discussing the results in light of previous findings and developing implications for research and practice.

1. The construct of psychological contracts

The construct of psychological contracts appeared in explaining human behavior at work early in the 20th century, but regained research interest in the last two decades. Schein (1970, pp. 77-79) argued that in order for individuals to generate commitment, loyalty and enthusiasm for their organization and its goals, and to obtain satisfaction from their work, two conditions have to be satisfied: 1) the degree in which their own expectations of what the organization will provide them with and what they owe the organization, match what the organization's expectations are of what it will give and get, and 2) assuming that there is an agreement on expectations, what is actually exchanged (e.g., money in exchange for time at work, social-need satisfaction and security in exchange for work and loyalty, opportunities for self-actualization and challenging work in exchange for high productivity, quality work, and creative effort in the service of organizational goals, or various combinations of these).

The underlying notion is that employment relationship is based on an exchange: the employer offers certain returns (e.g., pay, benefits, employment security) in exchange for employee contributions (e.g., effort, commitment, productivity) and the level of exchange depends on expectations from both sides. In this way, psychological contract can be defined as a set of beliefs, evaluations and assumptions held by employees about their employment relationships (Rousseau, 1995). These are not written or explicitly stated but rather mental models used by employees to asses their employment relationship and choose their actions (Rousseau and Parks, 1992). Psychological contracts serve as a filter through which the information about the employment relationship is processed, thus guiding employee attitudes and behaviors.

There are many elements that shape employees' psychological contracts. Thus far, a few variables pertaining to the individual have been identified as having an impact on the psychological contract including career motivations (Larwood et al., 1998), previous work experiences (Cavanaugh and Noe, 1999), and availability of job alternatives (Turnley and Feldman, 1999). With regard to company policies and actions psychological contracts are shaped by both economic (e.g., pay and benefits) and non-economic (e.g., support, participation in decision making) returns offered by the organization (Rousseau and Geller, 1995). Further, psychological contracts have to be studied within social context where public policies, government actions, social norms and cultural values play an important role. There is an important link between social and psychological contract, because societal values appear to underlie the beliefs employees hold about their employment relationships as well as influence the basic evaluative standards employees use to assess the adequacy of this relationship (Bloom et al., 1997).

Generally, two types of psychological contracts have been distinguished: transactional and relational. Whereas transactional contracts are focused on economic returns, closed-ended, and static, relational contracts are primarily socio-emotionally focused (non-economic returns), open-ended, and dynamic (Rousseau and Parks, 1992; Shore and Tetrick, 1994). In transactional contracts both parties aim at maximizing their own gains, while in relational contracts the aim is to maximize current and future outcomes for both parties (employees and employers). Relational contracts are more complex and they entail a variety of economic and psychosocial returns (i.e., beside pay and benefits also organizational support and loyalty to the employees are important factors), burdens and benefits are shared among the parties and balanced over time. Also, relational contracts are considerably less explicit than transactional ones, as they are based on assumptions and many provisions of the contract are not clearly specified.

Research shows that psychological contracts are often breached. Robinson and Morrison (2000) found that 94 percent of employees in their sample perceived their organization as defaulting on agreed upon obligations within their first two years of work[1]. The observation that broken promises in the workplace are not the exception but the norm (Robinson and Rousseau, 1994), can be supported by research findings on work attitudes, which identified declines in employees' perceptions of their employer's trust, commitment, and loyalty to them (Cappelli, 2000). The problem of psychological contract breach becomes important for company competitiveness because researchers have demonstrated that a relationship exists between employee perceptions of contract breach and subsequent behaviors and attitudes such as job satisfaction, commitment, trust, organizational citizenship behavior, absenteeism, and turnover intentions (Robinson and Morrison, 1995; Robinson and Rousseau, 1994; Shore and Barksdale, 1998). Therefore, it becomes critical from company management's point of view to analyze the gap between employee expectations and perceived returns. When a breach of psychological contract is evident, management should plan actions in order to prevent negative effects of contract breach which could seriously harm company performance.

[1] This is a much higher number than 55 percent of employees, who reported breach of psychological contract in an earlier research by Robinson and Rousseau (1994).

Psychological contracts are in the process of change in transition economies. Namely, transition to an open market economy does not pertain only to the economic matters of the society and enterprises but also to societal values, norms and expectations. All of these have to be framed according to the new system and employees would need to develop a new mindset to cope with the demands of increased productivity and innovation in a time, when employment security decreased considerably in comparison to the previous, in European transition economies usually socialistic system. An important mediator in this shift in employee expectations and values could have been a new social contract.

In the case of Slovenia, however, a little effort had been put into negotiating a new social contract and thus the framework for developing a new mindset was actually missing. As a consequence, a real blend of old and new values was observed implying that in many cases employees would want to have the best from both, old and new system. Consistently with this observation, previous research (e.g., Lipičnik and Zupan, 1997) suggested that employee expectations regarding their employment relationships are high on almost all dimensions and a wide gap with regard to fulfillment of these expectations exists.

2. Research hypotheses

Based on previous research and psychological contract theory we developed several hypotheses for the study purposes. Firstly, we wanted to analyze the types of psychological contracts in Slovenian companies. Psychological contracts are usually conceptualized as falling along a continuum, at one end there are transactional and at the other relational contracts. Due to various forces shaping the psychological contract (individual, company and society) we could expect to find these different types of contracts both within and between companies. Due to company characteristics we would expect to find more relational contracts in company B and more transactional contracts in company A. Thus, we derive the following proposition:

Hypothesis 1: Along the continuum from transactional to relational different types of psychological contracts will be found. In company A the majority of contracts will fall along transactional dimensions and in company B along relational dimensions.

Beside company policies and actions, individual characteristics also affect the psychological contract. Previous research has shown that younger employees and those with higher levels of education have higher expectations (Kotter, 1973). Due to socialization process and experiences older employees form more realistic expectations. Also, company HR policies differ for professional and managerial staff compared to administrative and production workers, usually providing the former (often considered as the core employees) with higher returns. Thus, the second and third hypotheses are as follows:

Hypothesis 2: The levels of expectations and perceived realization of returns differ between companies A and B.

Hypothesis 3: Psychological contracts in companies A and B differ with regard to age, education and type of work.

Most of the previous research on psychological contracts fulfillment (e.g., Robinson and Rousseau, 1994; Robinson and Morrison, 2000; Lipičnik and Zupan, 1997) has suggested, that the breach of psychological contracts exists. This breach of contract then leads to decreased satisfaction and commitment. Thus, the fourth and fifth hypotheses are as follows:

Hypothesis 4: The breach of psychological contracts exists in both companies.

Hypothesis 5: The breach of psychological contracts decreases employee satisfaction and commitment.

3. Methodology

The data for the study were gathered by a comprehensive attitude survey in two Slovenian enterprises, using an adapted version of the questionnaire by Bloom et al. (1997). The sample for analysis consists of responses from 153 employees of company A and 83 employees of company B. Both surveys were conducted in three months interval in spring 2001, which is concordant enough to control for significant changes in business environment. The questionnaires were distributed to all employees and the response rate was 26% in company A and 36% in company B.

For the purposes of the study we have chosen two very heterogeneous companies so that we could analyze, whether company specific policies, actions and context have an important effect on shaping psychological contracts. Company A is a metal production facility in a rural area with little over 600 employees, one third of them are low-skilled production workers, and Company B is an engineering consultancy in urban area with 230 employees, half of them with a college degree or higher. With regard to employment policy, company A has gone through considerable downsizing since 1990 and nowadays hires mostly on temporary assignments, while company B

had, although small, a very stable employment growth over the past decade. Compensation and benefits are considerably higher in company B, where pay for performance program is also in place (no such program exits in company A). Training is an important activity for both companies (in company A not as much for production workers) and career development has not yet been developed in either company. In both companies most of employees are shareholders, the stakes and participation in decision making being larger in company B.

For the purposes of the study four sets of variables have been designed: 1) variables about employee expectations, 2) variables about perceived realization of returns (by employees), 3) variables about job satisfaction and commitment, and 4) demographic variables. Groups of variables covering employee expectations and perceived realization were used as input variables for gap analysis. They recorded respondents' attitudes towards what a company should have and what it actually had provided the employees on 13 categories (promotion, high pay, variable pay, stable and secure pay, benefits, interesting work, career development, training, participation in decision-making, long-term job security, good coworkers, praise for good work, possibility for participative ownership) with.

The respondents were offered answers on a 5-grade balanced scale, ranging from "not at all" to "definitely". Gaps were computed by deducting perceived realization from expectations on each category. Variables about job satisfaction and employee commitment were represented by 14 statements (11 positive and 3 negative) covering different aspects of job satisfaction and commitment. The answers were provided on extended 7-grade Likert scale, ranging from "I disagree completely" to "I agree completely", with a possibility of neutral answer "I neither agree nor disagree". Demographic variables describe employees according to their age group, education and type of work (production, professional and managerial).

To obtain results statistical methods were used for two purposes. Firstly, to derive new variables needed for further analysis[1], and secondly, to test the hypotheses. The following statistical methods were used: descriptive statistics, exploratory factor analysis, clustering, comparison of means (paired-sample t-test, independent sample t-test, one-way ANOVA), scale reliability test (Cronbach's alpha), Pearson and partial correlation and cross tabulation.

4. Results

In this section a summary of results for each proposition with a brief explanation of the statistical methods used to derive results is presented. More detailed statistical data are available in the Appendix.

4.1. Types of psychological contracts. In order to depict the types of psychological contracts we classified employees of company A and B separately according to their expectations and perceived realization by means of hierarchical and K-means clustering[2]. We determined the number of clusters by using dendrogram (within hierarchical clustering) and continued with developing clusters with K-means clustering. Each cluster was characterized and given a descriptive name according to its main characteristics (final cluster centers for expectations and perceived realization for both companies are in Tables 1 and 2 in the Appendix).

Table 1 shows that for each company (A and B) and for both dimensions (expectations and perceived realization of returns) three clusters could be depicted. The analysis of each cluster shows that it is almost impossible to distinguish levels of expectations or perceived realization between categories that could be classified as transactional (e.g., pay, benefits) or relational (e.g., career development, participation in decision making). It is rather the absolute level of expectations or perceived realization on all categories, which provides the basis for grouping employees with regard to their psychological contracts. Thus, we may observe that in both companies employees have in general very high or at least moderate expectations, while in company B there is a slight distinction along some categories, so the two smaller groups can be labeled as either risk averse (emphasis on stable pay and security) or risk takers (emphasis on pay for performance and personal growth).

Table 1. Types of psychological contracts[3]

Company A	Company B
Expectations	
1. High (64)	1. Moderate (38)
2. Low (11)	2. Generally high expectations, emphasis on stable pay and security (risk averse) (27)
3. Moderate (46)	3. High expectations, emphasis on pay for performance and personal growth (risk takers) (7)
Perceived realization	
1. Average (44)	1. Above average (26)
2. Above average (39)	2. Average (23)
3. Below average (24)	3. Below average (20)

Source: Questionnaire analysis.

[1] Some new variables were derived by simple aggregation of initial variables. In the following sections these are referred to as simple aggregations (S.A.).

[2] We used squared euclidean distance as distance measure and Ward's method.

[3] Numbers of employees belonging to each cluster are in parentheses.

Psychological contracts in both Slovenian companies then do not differ as much with regard to types of expected/received returns but with regard to overall levels of expectations and perceived realization of returns. In other words, those who have high expectations in general, show high expectations on each category. Also, the perception of realized returns does not differ much with regard to particular categories, but rather differs based on overall assessment of all returns.

4.2. The factors shaping psychological contracts. In order to understand which factors shape psychological contracts we looked at two dimensions – company and individual differences. First, we looked at how expectations and perceived realization differ between companies A and B. We conducted independent sample t-tests to determine statistically significant differences in expectations and perceived realization as well as expectation-realization gaps between the companies (see Table 2).

Table 2. Comparison of expectations, perceived realization and gaps between the two for companies A and B

Category	Expectations		Perceived Realization		Gap	
	Mean difference	Mean higher at company	Mean difference	Mean higher at company	Mean difference	Mean higher at company
Promotion	-0,5407***	B	-0,2088	B	-0,3132	B
High pay	-0,0287	B	-0,4434***	B	0,4327**	A
Variable pay	-0,1415	B	-0,2444	B	0,1298	A
Stable and secure pay	0,2867**	A	-0,3308**	B	0,6693***	A
Benefits	0,0827	A	-0,1274	B	0,1909	A
Interesting work	-0,2860**	B	-0,1808	B	-0,0836	B
Career development	-0,2819**	B	0,0094	A	-0,2730	B
Training	-0,3225***	B	0,1848	A	-0,4861**	B
Participation in decision-making	0,0037	A	-0,0072	B	0,0066	A
Long-term job security	0,5087***	A	0,2083	A	0,2656	A
Good colleagues	0,0268	A	-0,1582	B	0,1802	A
Praise for good work	0,0615	A	-0,1925	B	0,2837	A
Possibility for participative ownership	-0,4443***	B	-0,4625***	B	0,0924	A

Notes: * significant at 0,1 (two-tailed); ** significant at 0,05 (two-tailed); *** significant at 0,01 (two-tailed).
Source: Questionnaire analysis.

From Table 2 we observe a difference between expectations for companies A and B. For company B expectations are higher for those categories that can be labeled as relational (i.e., promotion, interesting work, career development, training and ownership), while for company A expectations are higher for stable and secure pay and long-term job security. These differences are very logical, if we take into account different nature of business and company HR policies, which we have previously described. Interestingly, there is not as much variation in perceived realization. Namely, only for three categories (high pay, stable and secure pay, and ownership) the perceptions of returns are higher in company B. The same observation holds for the gap between expectations and perceived realization (gap for high pay, stable and secure pay is higher in company A and gap for training in company B). Based on these data, we conclude that company characteristics and HR policies may have some effect on shaping psychological contract, but further analysis would be needed to reveal, how important are these compared to individual characteristics of employees.

Analyzing individual characteristics was the second step in this part of analysis. We checked for interdependence of variables with cross tabulation with chi-square tests conducted for non-metric data. The results, which are presented in Table 3, show that with regard to expectations the only significant difference can be found with different types of work in company B, where managerial employees have higher expectations than others regarding personal growth and pay for performance, and others have higher expectations regarding stable pay and security.

Table 3. Chi-square test for cross tabulation (expectations with demographic variables)

Significance of chi-square		Company A	Company B
Expectations with	Age	0,430	0,360
	Education	0,344	0,303
	Type of work	0,631	0,019

Source: Questionnaire analysis.

Table 4. Chi-square test for cross tabulation (perceived realization with demographic variables)

Significance of chi-square		Company A	Company B
Perceived realization with	Age	0,083	0,059
	Education	0,003	0,290
	Type of work	0,009	0,004

Source: Questionnaire analysis.

On the other hand, data on perceived realization of returns in Table 4 show significant differences for all three demographics in company A[1], and all but education in company B. Thus, we may argue that older employees, who are placed in managerial or other higher and more demanding jobs, and usually (in company A) also have higher education, perceive their returns above the company average. This can be easily explained by company's HR policy which stipulates higher returns (especially in the areas of compensation, benefits and training) for employees in those positions.

4.3. The breach of psychological contracts and its effect on employee satisfaction and commitment. The breach of psychological contracts can be observed, when we compare expectations and perceived realization and show the gap between the two. From Figure 1 it can be seen that according to employee perceptions none of the expectations are met. Gap is the closest for long-term job security in company B, the largest gaps, however, can be found in both companies with regard to variable pay (pay for performance) and praise for good work.

Paired sample t-test was used in order to determine statistically significant expectation-perceived realization gaps within each company. We have run tests for all 13 categories and also for aggregated expectations and aggregated perceived realizations. On the basis of the analysis we can conclude that expectations and perceived realization significantly differ for all examined variable pairs in both companies, except for stable and secure pay in company B (Tables 3 and 4 in the Appendix). Further analysis with one-way ANOVA was conducted to establish, whether the differences on each gap category are greater between or within the companies. The results have clearly shown that differences are greater within companies. Results of ANOVA are presented in Table 5 in the Appendix.

The last issue we wanted to explore is the link between the breach of psychological contract and satisfaction and commitment. As a part of this analysis we first conducted exploratory factor analysis[2] to determine the factors behind the revealed opinions in the survey regarding job satisfaction and commitment. We used Kaiser-Meyer-Olkin measure of sampling adequacy and tested with Bartlett's test of sphericity. The interpretable factors with eigenvalues over 1 are presented in Table 5 (additional statistical data on factor analysis can be found in Tables 6-8 in the Appendix).

The first factor, satisfaction and implicit commitment, is described by positive attitudes toward work and company and expressed satisfaction. Revealed commitment shows employee thoughts and intentions to change the employer. And finally, pay satisfaction explains the expressed level of satisfaction pertaining just to overall pay received by the employee. Scales of employee satisfaction and commitment were tested for reliability with Cronbach's alpha. Alphas of both simply aggregated and statistically derived scales can be observed in Table 6 and they suggest scales are reliable for further analytical use.

Table 5. Interpretable factors

Factors behind satisfaction and commitment	Satisfaction and implicit commitment
	Revealed commitment
	Pay satisfaction

Source: Questionnaire analysis.

Table 6. Alphas for satisfaction and commitment scales

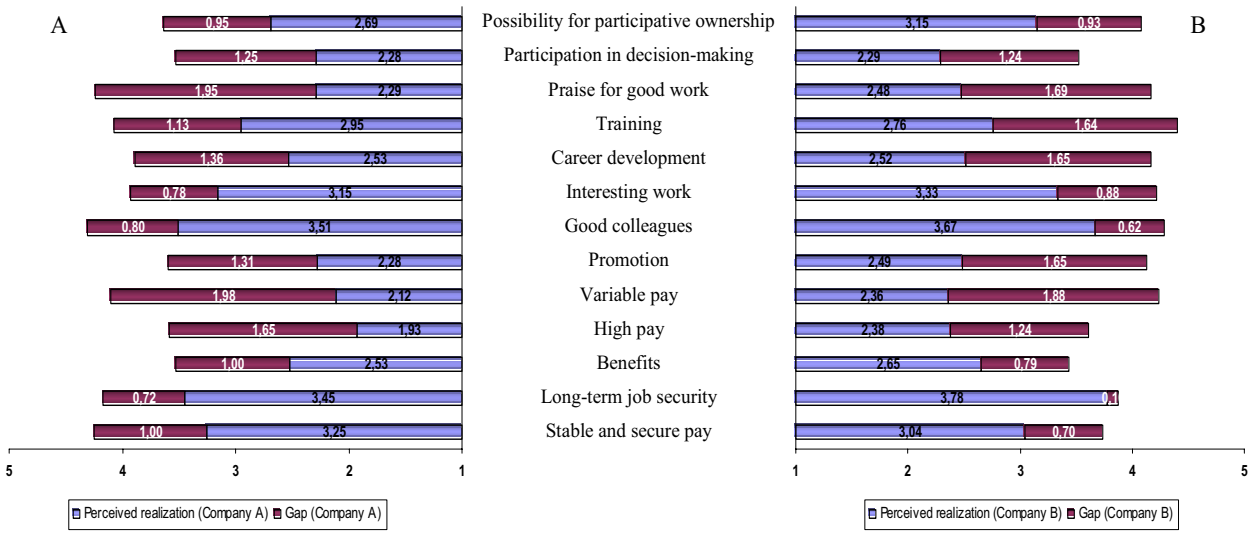
Scale (factor, aggregated variables)	Alpha
Satisfaction and implicit commitment	0,8733
Revealed commitment	0,8401
Pay satisfaction	0,8106
Satisfaction (simple aggregation)	0,7906
Commitment (simple aggregation)	0,8643

Source: Questionnaire analysis.

This data reduction procedure was useful for showing the initial differences between the companies. From Table 7 we may conclude, that there are no significant differences for items describing overall satisfaction and commitment, but pay satisfaction is higher in company B (actual level of compensation exceeds company A for about 40%, mostly due to higher levels of education and, generally speaking, more demanding jobs in company B). The only other important difference pertains to the level of perceived realization, which is again higher for company B.

In order to analyze the link between the breach of psychological contract (gap between expectations and perceived realization) we checked for interdependence of variables with bivariate Pearson and partial correlation analysis on metric data. In Tables 9 and 10 in Appendix we present simple bivariate correlations for companies A and B separately. Results of partial correlation are presented in Tables 8 and 9.

[1] For the 0,1 significance level (two-tailed).
[2] Principal axis factoring; interpretation with help of Varimax rotation.



Source: Questionnaire analysis.

Fig. 1. Expectations, perceived realization and gaps for companies A and B

Table 7. Comparison of psychological contracts, satisfaction and commitment between companies A and B

Category	Mean difference	Mean difference higher at company
Gap (simple aggregation)	1,6219	A
Satisfaction (simple aggregation)	-1,2492	B
Commitment (simple aggregation)	-1,4394	B
Expectations (simple aggregation)	-0,6707	B
Perceived realization (simple aggregation)	-2,2158*	B
Satisfaction and implicit commitment	0,1042	A
Revealed commitment	-0,1218	B
Pay satisfaction	-0,3983***	B

Notes: * significant at 0,1 (two-tailed); ** significant at 0,05 (two-tailed); *** significant at 0,01 (two-tailed).
Source: Questionnaire analysis.

Table 8. Partial correlation coefficients for company A, while controlling for other two variables

	Revealed commitment	Satisfaction and implicit commitment	Pay satisfaction
Gap (S.A.)	-0,3118***	-0,2982***	-0,511***

Note: *** significant at 0,01 (two-tailed).
Source: Questionnaire analysis.

Table 9. Partial correlation coefficients for company B, while controlling for other two variables

	Revealed commitment	Satisfaction and implicit commitment	Pay satisfaction
Gap (S.A.)	-0,381***	-0,487***	-0,573***

Note: *** significant at 0,01 (two-tailed).
Source: Questionnaire analysis.

Correlation coefficients show that in both companies the breach of psychological contracts (the gap) is related to decreased satisfaction and commitment, and that the gap – pay satisfaction link is the strongest. Also, commitment and satisfaction are correlated more strongly with perceived realization than with the gap or level of expectations.

5. Discussion and implications

Our analysis provided some insights with regard to types and impact of psychological contracts in Slovenian companies in late transition time. The data suggest some differences from previous research conducted in traditional open-market economies. It seems that in companies in transition economies employees have not yet differentiated their expectations regarding various types of returns (i.e. transactional or relational), but rather express high levels of expectations on all categories (regardless of demographic characteristics). Therefore, our first hypothesis is only partially confirmed, it is true that there are different types of psychological contracts, but not alongside transactional or relational dimensions, but according to the level of expectations and perceived realization.

Results also do not fully support the second hypothesis arguing that there should be differences in psychological contracts between the companies due to different business, HR policies and workforce composition. Although there are some differences pertaining to these specific categories for both companies, there are no significant differences in expectations or gaps, and only some differences in perceived realization (although the actual returns are

considerably higher in company B). Actually, the analysis showed that there are actually larger differences of psychological contracts within the companies than between them, suggesting that it is not company-specific policy, but rather the perception of social contract that importantly shapes psychological contracts. This finding would confirm the conclusions of Bloom et al. (1997) that there is an important link between social and psychological contracts.

Our results fully support the third and fourth hypotheses regarding the breach of psychological contract and its effect on decreased employee satisfaction and commitment. Following the logic of psychological contract theory, one would then expect a lot of workplace dysfunctions and employees taking actions to change the employer. Our study suggests otherwise. Although employees are dissatisfied, especially with regard to pay, they do not intend to change the employer. This somewhat confirms the study by Pate et al. (2003) that the breach of psychological contracts has a stronger impact on employee attitudes than on employee behavior. They found out that one important contextual factor is labor market conditions. It seems that the lack of alternatives, especially in times of relatively high unemployment in transitional countries, imposes a serious limit to actions employees can take when they feel that their psychological contract is breached. The second possible explanation reflects upon the distinction between the breach and violation of psychological contract. As Morrison and Robinson (1997) have emphasized, the breach is the acknowledgement that a promised obligation has not been adequately fulfilled. A psychological contract violation, on the other hand, is described as an emotional response typified by feelings of anger, betrayal, and resentment sometimes following a broken promise, leading employees to take actions (Robinson and Morrison, 2000). We may speculate that due to the long history of unfulfilling expectations by employers in transitional countries, employees do not necessarily perceive even a substantial breach of psychological contract as a violation strong enough for them to act upon it.

We should also point out another finding, which runs contrary to prior research. Kotter (1973) has found out that it is not the level of returns, but the gap between expectations and returns, which negatively affects satisfaction and commitment. In our case it is just the opposite, perceived realization has the strongest impact on satisfaction and commitment. We may speculate that in transitional companies employees feel that they deserve more than employers are willing to give (regardless of expectation levels). Especially sensitive are results for pay satisfaction, again confirming the former conclusions by Lipičnik and Zupan (1997) that pay dissatisfaction has an overriding effect on employee attitudes towards other work and employer. All of this may be a result of conflicting values and experiences from the old system (egalitarianism and solidarity) compared to the ones stemming from the new business reality. If this is true, than the need for an explicit social contract becomes even more important.

As it is the case with most studies, this one also opens many additional questions. The sole construct of psychological contracts is so complex that some new research approaches are needed, both with regard to measures and analytical tools. Simply studying the gap between expectations and returns (perceived or actual) may not be enough. Namely, employees react differently, when a breach of contract actually becomes a violation, which leads to undesirable actions (e.g., decreased motivation and productivity, high turnover). Also, for analyzing the link between the breach of psychological contracts and employee outcomes (i.e., satisfaction and commitment) a structural model would be more appropriate than simple correlations because some factors may have recursive effects.

From practitioner's point of view our findings show the importance of studying the psychological contracts to find out, which elements affect employee outcomes the most. It would be important to improve the fit (reduce the gap) between expectations and returns. The options include aiming at more realistic psychological contracts (thus reducing expectations) through sharing of company vision, business strategy and information on business results and competitive situation. Also, previous research suggests that making promises more explicit (i.e., clearly stated and written) could increase employee commitment and motivation (Rousseau, 2004). However, it is crucial to get mutual understanding and agreement about the terms of the psychological contract (Coyle-Shapiro and Kessler, 2002). Again, the explicitly stated social contract might be of great help in clarifying both sides' (employees' and employers') expectations in the new system emerging through the transitional process to a market economy. Of course, companies can get more favorable results also through carefully designed and well executed HR practices, in our case especially regarding compensation issues (pay for performance), which seems to have the strongest impact on employee attitudes and behavior.

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Appendix A

Table 1. Final cluster centers for expectations and perceived realization in company A

Perceived realization			Category	Expectations		
Cluster				Cluster		
Average	Above average	Below average		High	Low	Moderate
1,84	3,26	1,21	Promotion	4,05	1,73	3,48
1,73	2,62	1,17	High pay	4,03	2,09	3,43
1,68	2,79	1,38	Variable pay	4,42	2,36	4,04
3,59	3,69	2,75	Stable and secure pay	4,52	3,18	4,02
2,55	2,90	1,88	Benefits	3,95	2,45	3,30
3,32	3,62	2,17	Interesting work	4,39	3,09	3,61
2,39	3,46	1,21	Career development	4,39	2,27	3,59
3,00	3,74	1,42	Training	4,50	2,55	3,89
1,86	3,05	1,75	Participation in decision-making	4,05	1,91	3,33
3,23	3,49	2,63	Long-term job security	4,72	3,45	3,76
3,75	3,62	2,67	Good colleagues	4,66	3,73	4,00
2,05	3,03	1,29	Praise for job well done	4,64	3,00	4,02
2,48	3,05	2,33	Possibility for participative ownership	4,34	2,18	3,11

Source: Questionnaire analysis.

Table 2. Expectations and perceived realization in company B

Perceived realization			Category	Expectations		
Cluster				Cluster		
Above average	Average	Below average		Moderate	High (stability, safety)	High (ambition, performance)
3,35	2,30	1,60	Promotion	3,84	4,52	4,29
3,27	1,96	1,70	High pay	3,16	4,19	3,57
3,35	2,09	1,55	Variable pay	4,05	4,26	5,00
4,04	4,00	3,05	Stable and secure pay	3,68	4,48	2,71
3,12	2,70	1,95	Benefits	3,18	4,04	2,57
4,00	3,17	2,60	Interesting work	3,92	4,44	5,00
3,35	2,35	1,55	Career development	3,84	4,52	4,57
3,54	2,61	1,90	Training	3,95	4,89	5,00
3,15	1,96	1,45	Participation in decision-making	3,21	3,67	4,57
3,46	3,35	2,00	Long-term job security	3,50	4,48	2,14
3,88	3,61	3,40	Good colleagues	4,03	4,56	4,57
3,04	2,57	1,60	Praise for job well done	3,63	4,70	4,86
3,96	2,43	2,90	Possibility for participative ownership	3,76	4,37	4,57

Source: Questionnaire analysis.

Table 3. Gap and its statistical significance within company A

Category		Mean	Sig. (2-tailed)
Pair 1	E-promotion & PR-promotion	1,35	,000
Pair 2	E-high pay & PR-high pay	1,71	,000
Pair 3	E-variable pay & PR-variable pay	2,06	,000
Pair 4	E-stable and secure pay & PR-stable and secure pay	,77	,000
Pair 5	E-benefits & PR-benefits	,98	,000
Pair 6	E-interesting work & PR-interesting work	,81	,000
Pair 7	E-career development & PR-career development	1,40	,000
Pair 8	E-training & PR-training	1,17	,000
Pair 9	E-participation in decision-making & PR-participation in decision-making	1,26	,000
Pair 10	E-long-term job security & PR-long-term job security	,97	,000
Pair 11	E-good coworkers & PR-good coworkers	,79	,000
Pair 12	E-praise for job well done & PR-praise for job well done	1,98	,000
Pair 13	E-possibility for participative ownership & PR-possibility for participative ownership	1,01	,000
Pair 14	Expectations (simple aggregation) & Percieved realization (simple aggregation)	16,7524	,000

Source: Questionnaire analysis.

Table 4. Gap and its statistical significance within company B

Category		Mean	Sig. (2-tailed)
Pair 1	E-promotion & PR-promotion	1,67	,000
Pair 2	E-high pay & PR-high pay	1,28	,000
Pair 3	E-variable pay & PR-variable pay	1,93	,000
Pair 4	E-stable and secure pay & PR-stable and secure pay	,10	,518
Pair 5	E-benefits & PR-benefits	,79	,000
Pair 6	E-interesting work & PR-interesting work	,89	,000
Pair 7	E-career development & PR-career development	1,67	,000
Pair 8	E-training & PR-training	1,65	,000
Pair 9	E-participation in decision-making & PR-participation in decision-making	1,25	,000
Pair 10	E-long-term job security & PR-long-term job security	,71	,000
Pair 11	E-good coworkers & PR-good coworkers	,61	,000
Pair 12	E-praise for job well done & PR-praise for job well done	1,70	,000
Pair 13	E-possibility for participative ownership & PR-possibility for participative ownership	,92	,000
Pair 14	Expectations (simple aggregation) & Percieved realization (simple aggregation)	15,1304	,000

Source: Questionnaire analysis.

Table 5. Comparison of differences within and between companies with one-way ANOVA

One-way ANOVA output		Sum of squares	Mean square	F	Sig.
Gap promotion	Between groups	4,358	4,358	2,367	,126
	Within groups	342,509	1,841		
	Total	346,867			
Gap high pay	Between groups	8,264	8,264	4,582	,034
	Within groups	331,892	1,804		
	Total	340,156			
Gap variable pay	Between groups	,748	,748	,342	,559
	Within groups	407,230	2,189		
	Total	407,979			
Gap stable and secure pay	Between groups	20,005	20,005	12,042	,001
	Within groups	308,990	1,661		
	Total	328,995			
Gap benefits	Between groups	1,614	1,614	,895	,345
	Within groups	333,840	1,805		
	Total	335,455			
Gap interesting work	Between groups	,307	,307	,244	,622
	Within groups	230,828	1,261		
	Total	231,135			
Gap career development	Between groups	3,305	3,305	1,722	,191
	Within groups	353,189	1,920		
	Total	356,495			
Gap training	Between groups	10,428	10,428	5,156	,024
	Within groups	372,153	2,023		
	Total	382,581			
Gap participation in decision-making	Between groups	,002	,002	,001	,973
	Within groups	309,058	1,689		
	Total	309,059			
Gap long-term job security	Between groups	3,123	3,123	1,784	,183
	Within groups	323,797	1,750		
	Total	326,920			
Gap good coworkers	Between groups	1,438	1,438	1,278	,260
	Within groups	208,102	1,125		
	Total	209,540			
Gap praise for good work	Between groups	3,569	3,569	1,722	,191
	Within groups	381,334	2,072		
	Total	384,903			
Gap possibility for participative ownership	Between groups	,372	,372	,198	,657
	Within groups	338,491	1,881		
	Total	338,863			
Gap (simple aggregation)	Between groups	109.537	109,537	,847	,359
	Within groups	22245.388	129,334		
	Total	22354.925			

Source: Questionnaire analysis.

Table 6. KMO and Bartlett's test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		,867
Bartlett's Test of Sphericity	Approx. chi-square	1554,308
	df	91
	Sig.	000

Source: Questionnaire analysis.

Table 7. Total variance explained with factors

Factor	Initial eigenvalues			Extraction sums of squared loadings			Rotation sums of squared loadings		
	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %
Satisfaction and implicite commitment	6,161	44,055	44,005	5,735	40,962	40,962	3,526	25,183	25,183
Reveald commitment	1,494	10,669	54,674	1,093	7,806	48,767	2,069	14,781	39,964
Pay satisfaction	1,104	7,886	62,560	,760	5,432	54,199	1,993	14,235	54,199

Source: Questionnaire analysis.

Table 8. Rotated factor matrix (Varimax with Kaiser normalization) – loadings

	Satisfaction and implicit commitment	Revealed commitment	Pay satisfaction
I am rewarded with adequate pay.	0,21	0,15	**0,79**
I am proud to be employed in the company.	**0,65**	0,30	0,28
The company provides me with a safe employment.	**0,49**	0,16	0,25
The company offers opportunities for education.	0,36	0,22	0,33
I could tell many nice things about the company.	**0,76**	0,21	0,35
I like working with my coworkers.	**0,54**	0,14	0,00
I am generally satisfied with my job.	**0,63**	0,22	0,18
My work is interesting.	**0,63**	0,10	0,08
I am generally satisfied with my pay.	0,08	0,26	**0,82**
I like going to work.	**0,68**	0,32	0,04
I describe the company as a nice company to work for to my friends.	**0,61**	0,32	0,38
Negation: If I had chance, I would change my job.	0,24	**0,74**	0,25
Negation: I frequently regret working for my company.	0,26	**0,49**	0,24
Negation: I think about changing my job a lot.	0,29	**0,84**	0,15

Source: Questionnaire analysis.

Table 9. Simple bivariate Pearson correlations for company A[1]

Company A	Gap (S.A.)	Satisfaction (S.A.)	Commitment (S.A.)	Expectations (S.A.)	Perceived realiza-tion (S.A.)	Satisfaction and implicit commitment	Revealed commitment	Pay satisfaction
Gap (S.A.)	1,00	-0,57***	-0,50***	0,78***	-0,79***	-0,26***	-0,33***	-0,46***
Satisfaction (S.A.)		1,00	0,73***	-0,05	0,76***	0,71***	0,26***	0,57***
Commitment (S.A.)			1,00	-0,12	0,66***	0,60***	0,70***	0,32***
Expectations (S.A.)				1,00	-0,24**	0,00	-0,14	-0,09
Perceived realization (S.A.)					1,00	0,37***	0,40***	0,62***
Satisfaction and implicit commitment						1,00	0,01	0,02
Revealed commitment							1,00	-0,02
Pay satisfaction								1,00

Notes: ** significant at 0,05 (two-tailed); *** significant at 0,01 (two-tailed).
Source: Questionnaire analysis.

Table 10. Simple bivariate Pearson correlations for company B

Company B	Gap (S.A.)	Satisfaction (S.A.)	Commitment (S.A.)	Expectations (S.A.)	Perceived realization (S.A.)	Satisfaction and implicit commitment	Revealed commitment	Pay satisfaction
Gap (S.A.)	1,00	-0,80***	-0,73***	0,57***	-0,86***	-0,60***	-0,51***	-0,63***
Satisfaction (S.A.)		1,00	0,83***	-0,19	0,83***	0,77***	0,54***	0,70***
Commitment (S.A.)			1,00	-0,15	0,76***	0,75***	0,81***	0,49***
Expectations (S.A.)				1,00	-0,07	-0,13	-0,08	-0,16
Perceived realization (S.A.)					1,00	0,62***	0,53***	0,66***
Satisfaction and implicit commitment						1,00	0,34***	0,22
Revealed commitment							1,00	0,25**
Pay satisfaction								1,00

Notes: ** significant at 0,05 (two-tailed); *** significant at 0,01 (two-tailed).
Source: Questionnaire analysis.

[1] S.A. stands for simple aggregation.