

**BENEFIT OF THE DOUBT:  
THE BUFFERING INFLUENCE OF NORMATIVE CONTRACTS  
ON THE BREACH-WORKPLACE PERFORMANCE RELATIONSHIP**

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**Abstract**

This study investigates the influence of employees' perception of managerial breach of the normative relational contract (i.e., the psychological relational contract at the group or workplace level) on performance. Many employees in Australia are employed on a permanent or continuing basis and have normative relational contracts whose terms are embedded in human resource practices that apply to all employees at the workplace. We use normative relational contract theory to hypothesise that, where there is a mutually recognised high quality normative relational contract -- a strong contract -- the emotional bonds of workforce loyalty that are developed by collective sense-making constrain negative workforce reactions to breach. We also hypothesise that, where managers offer high quality contract terms that are not recognised by employees, the failure to elicit loyalty means that breach has negative performance consequences. Panel data are obtained from a two-stage national, multisource study of employees ( $n = 1,733$ ) and senior human resource managers ( $n = 57$ ). Results from hierarchical moderator regression analyses support the hypotheses. They demonstrate that a strong normative relational contract 'buffers' employees' negative responses to breach.

## Introduction

Relationships between employers and employees are governed by the terms of employment contracts that describe the parties' obligations to each other. For Rousseau, all employment contracts -- both formal and informal -- are psychological because they 'exist in the eye of the beholder' (1995: 6). One of the most important principles underlying the psychological contract is the idea of reciprocity. Reciprocity describes the exchange of obligations between the parties (Blau, 1964). The failure by either party to reciprocate – to fulfil its obligations – is a contract breach (Cassar, Briner, & Buttigieg, 2016; Zhao, Wayne, Glibkowski, & Bravo, 2007). Psychological contract theory predicts that when the employer breaches the contract, the employee reduces contributions to the employment relationship (Bal, Chiaburu, & Jansen, 2010; Rayton, & Yalabik, 2014). A stream of studies suggests that, following employer breach, individual employees withdraw commitment and effort (e.g., Bunderson, 2001; Morrison & Robinson, 1997; Restubog et al., 2015; Robinson, 1996; Robinson & Morrison, 1995; Robinson & Rousseau, 1994; Turnley & Feldman, 2000; Zhao et al., 2007).

However, some studies have demonstrated a more complex relationship between breach and performance (Kiewitz et al., 2009; Lester et al., 2002; Lub et al., 2016; Restobug et al., 2010). In some situations, breach will be tolerated by employees (Rigotti, 2009; Zagenczyk et al., 2009). This outcome has been associated with pre-existing high-quality employment relationships in which negative response by employees is constrained by emotional ties (Dulac et al., 2006; Tekleab et al., 2005). In some circumstances, therefore, the negative consequences of breach may be averted. Yet it is not clear from the literature when this may occur.

There is evidence, however, that negative responses to breach differ between different types of psychological contract (Montes & Irving, 2008; Robinson & Morrison, 2000). There are two major types of psychological contract: transactional and relational (Rousseau, 1995; Rousseau, 2010). Transactional contracts are formal, explicit contracts, that is, their terms can be expressed directly. They are finite and concerned with economic exchange between the parties and refer primarily to measurable, tangible issues, usually in the form of pay in relation to employee output or hours of work. As the terms are fixed, transactional contracts are short-term because of the need for continual assessment by one or both parties. In contrast, relational contracts are informal, implicit and long-term. Their terms cannot be fully specified as obligations are imprecise and outcomes uncertain. In the contemporary organisation, fixed term employees such as independent contractors are likely to be governed by individual contracts (Rousseau & McLean Parks, 1993). These contracts are transactional, but may have relational aspects if, say, the job is renewed continually or is a port of entry to a permanent position.

Both transactional and relational psychological contracts operate not just at the individual level but also at the group level, in particular, when they apply to the permanent workforce in the organisation (Chambel & Fortuna, 2015). Group-based psychological contracts are known as normative contracts (Rousseau, 1995). Normative transactional contracts are typified by the short-term collective bargaining agreements which flourished in the post-war years (Fiorito, Gallagher, & Greer, 1986). However, in the last four decades, union influence has declined and there has been a widespread growth in human resource (HR) policies, practices and cultures which apply to most of the workforce, particularly where firms require flexibly-skilled, team-based innovative workers (Poutsma et al., 2006). Such practices set out to develop normative

relational contracts by conveying information in the form of implicit messages about contract terms and management obligations (Bowen & Ostroff, 2004; Ostroff & Bowen, 2016).

In recent times, there has been a failure of some employers to fulfill their obligations, for example, in the form of large-scale layoffs (Datta et al., 2010). Yet there is sparse research on the impact of employer breach at the normative or group level (Restubog et al., 2010). A major empirical study demonstrated the positive influence of social ties with co-workers on shaping employees' beliefs about the employment relationship (Dabos & Rousseau, 2013). Therefore, it may be that the group-based attitudes engendered by co-workers in a normative relational contract affect employees' responses to breach in different ways from those predicted by individual-based psychological contract theory.

We make a contribution to the psychological contract literature by carrying out a study of normative relational contracts operating across organisations. We examine the normative relational contract from the perspective of management obligations to the workforce. As employees' responses to contract breach may result in lowered work effort and quit behavior, we investigate the impact of breach on workplace performance. We focus on the moderating influence of two major issues: employees' perceptions of the quality of the normative relational contract that is offered by management; and level of agreement between management and employees in their perceptions of the quality of the contract offered by management (see Figure 1).

*Insert Figure 1 about here*

We employ normative relational contract theory as a framework in which to develop hypotheses (Rousseau, 1995). We use hierarchical moderator regression to investigate a two-

stage national, multisource sample of 1,733 employees and 57 senior HR managers. Our study was conducted in Australia where the majority of workers are permanent employees with expectations of continuing employment (Australian Bureau of Statistics, 2012). Such long-term expectations (such as the provision of training and job security) mean that most workplaces are characterised by normative relational contracts.

### **Theory and hypotheses**

Reciprocity is central to the effective operation of psychological contracts. It refers to a party's obligation to fulfill promises in return for obligations carried out by the other party (Blau, 1964; Cooke & Rice, 2006). Employee perception of the psychological contract is 'what workers believe the employer must provide them and what they owe in return' (Lee et al., 2011: 201). If employees believe that management has fulfilled the terms of their contract they will reciprocate by fulfilling their side of the bargain (Coyle-Shapiro & Kessler, 2002b; Morrison & Robinson, 1997; Robinson & Morrison, 2000; Turnley & Feldman, 2000). Breach of the contract by management – failure to fulfil obligations – is perceived by employees as a lack of reciprocity. While contract fulfillment by management is associated with positive employee behaviours (Turner et al., 2003), managerial breach is associated with adverse effects as employees reduce their effort and commitment (for reviews, see Suazo & Stone-Romero, 2011; Zhao et al., 2007).

Recent evidence, however, suggests that employees' reactions to breach may be conditional on the quality of the employment contract operating at the workplace (Dulac et al., 2008). Relational contracts are concerned with social exchange (Birtch, Chiang, & Van Esch, 2016; Robinson, Kraatz & Rousseau, 1994; Rousseau, 1994). Social exchange relationships are based on each party's ongoing beliefs and expectations about the obligations of the other party

(Blau 1964; Coyle-Shapiro & Conway, 2005; Shore & Barksdale, 1998). Relational contracts, therefore, are open-ended and long-term (Rousseau, 1995).

In many companies today, employees are governed by normative relational contracts. The terms of a normative contract apply to the workforce as a group (Dabos & Rousseau, 2013). As normative relational contract terms cannot be expressed, they are inferred by employees from messages embedded in employment practices (Bowen & Ostroff, 2004; Ostroff & Bowen, 2016; Ostroff, Kinicki, & Tamkins, 2003; Restubog et al., 2010; Rousseau & Greller, 1994; Rousseau & Wade-Benzoni, 1994). These messages provide a display of management obligations to the workforce. They send signals which are interpreted by employees (Ostroff & Bowen, 2016).

High quality relational contracts send messages that engender high expectations in the workforce about management obligations. They often arise when employers require skills that are not readily available, motivating both organisation and workforce to invest in training (Baker, Gibbons, & Murphy, 2002). Employers send messages that offer long-term inducements to the workforce to develop skills valued by the company (Dabos & Rousseau, 2004; Tekleab & Taylor, 2003). Workforce perceptions of high quality obligations engenders a process in which a collective interpretation of the messages is made (Bowen & Ostroff, 2004). This process consists of group-based sense-making whereby information is shared and processed among co-workers. 'Work-related perceptions ... are filtered through ... collective sense-making efforts' (Kehoe & Wright, 2012: 6). People who work together are exposed to and influenced by each other's opinions and behaviours (Dabos & Rousseau, 2013). A shared understanding arises from employees' communications with one another about the meaning of the practices (Bowen & Ostroff, 2004). The workforce develops a common understanding of what it perceives to be

management's expectations and rewards (Rousseau, 1995; Rousseau & Tijoriwala, 1998). Co-workers also reinforce each other's interpretations (Bowen & Ostroff, 2004). They put pressure on fellow workers to conform to the group's understanding and interpretation of the contract terms (Rousseau, 1995).

High quality relational contracts also develop socioemotional characteristics in the form of norms and values (Bal et al., 2010; Blau, 1964; Lawler & Thye, 1999; Morrison & Robinson, 1997; Thompson & Bunderson, 2003). As social exchange involves unspecified obligations, 'fulfillment ... depends on trust' (Blau, 1964: 113). Such contracts concern not just the long-term exchange of tangible issues (e.g., pay for service) but also intangible issues (Morrison & Robinson, 1997; Shore, Coyle-Shapiro & Tetrick, 2012). Commitment of the workforce to the organisation arises, not just from the need to safeguard the returns of sunk skill investments, but also from feelings of loyalty (Zhao et al., 2007).

High quality normative relational contracts, therefore, potentially lead to high performance through a collectively-developed common understanding and reinforcement of employer messages that encourage workforce investments in company skills and also engender feelings of commitment and loyalty. The payoff lies in the future in the form of high wages and job security (Guest, 1998).

In contrast, low quality normative relational contracts do not elicit high performance. There are few employee expectations of long term rewards and little or no investments in firm-specific training. Employee perceptions of low levels of management obligations do not require or encourage group-based sense-making and development of loyalty so individual interpretations



occur. Even where these interpretations are similar, for Bowen and Ostroff (2004), this does not constitute a collective interpretation and does not lead to a high performance climate.

***The moderating influence of employees' perceptions of the quality of the normative relational contract on the breach-performance relationship***

When employees perceive breach of the normative relational contract, the quality of the pre-existing contract influences evaluation of the breach and also the extent of reciprocal action by withdrawal of effort (Parzefall & Coyle-Shapiro, 2011). Where employees perceive a high quality normative relational contract, a collectivist outlook persists. The workforce believes that management signals it is committed to employees, values its contributions, and intends to continue with the relationship (Coyle-Shapiro & Conway, 2004). In this situation, negative responses to breach are constrained by collectivist socioemotional influences (Dulac et al., 2008). For example, a collectivist outlook lends itself to suppression of extreme emotions; employees are reluctant to directly blame the offender (in this case, management), preferring to preserve harmony and maintain relatedness (Ren & Gray, 2009). In relation to breach of the employment contract, collectivists tend to 'attribute relationship violations to the social context' rather than to management (Ren & Gray, 2009: 117). In such a context, therefore, the workforce gives management 'the benefit of the doubt' (Conway & Coyle-Shapiro, 2012: 294), or even 'forgive' them (Van Dyne et al., 1994: 798). Management actions may be interpreted as fairer than they really are (Tekleab et al., 2005). Breach may be interpreted as miscommunication or bad luck rather than a deliberate betrayal (Zhao et al., 2007). Employees understand the unpredictability of long-term rewards (Morrison & Robinson, 1997), and actively look for information that will confirm their expectation of a long-term relationship (Lester, Kickul, &

Bergmann, 2007). Breach may be viewed as delayed fulfillment or lapse that will eventually be rectified (Dulac et al., 2008). In a collective environment, the workforce may even share the blame or accept an external explanation (Ren & Gray, 2009). Workforce perception of a high quality normative relational contract, therefore, constrains reciprocal withdrawal of employees' effort following breach.

In contrast, employee perception of a low quality normative relational contract does not engender collectivism with associated loyalty and commitment. In such workplaces, employees are more likely to make individual responses to breach. This may result in displays of direct, negative emotions, such as resentment, frustration and anger (Ren & Gray, 2009). Such employees will likely respond to breach by withholding individual effort or conducting job search.

*Hypothesis 1.* In organisations where the workforce perceives a high quality normative relational contract, its perception of breach will have a less detrimental influence on workplace performance than in organisations where employees perceive a low quality normative relational contract.

***The moderating influence of agreement between management and employees in their perceptions of the quality of the normative relational contract***

The breach-performance relationship may also be conditional on *agreement* between the parties about the quality of the normative relational contract operating at the workplace.

Agreement is measured by the level of consistency between the parties' interpretation of the contract terms (Dabos & Rousseau, 2004). As normative relational contracts are implicit, there is much scope for disagreement between the parties (Coyle-Shapiro & Kessler, 2002a; Dabos &

Rousseau, 2004). Conventionally, it was expected that agreement per se would lead to the highest performance outcomes as the two parties would approach the relationship with little opportunity for misunderstandings (Dabos & Rousseau, 2004). That is, regardless of the quality or type of contract, it was expected that agreement led to higher performance. Other work, however, has challenged this viewpoint (Hom et al., 2009; Lambert et al., 2003). Studies suggest that *only* mutual perception of a high quality normative relational contract has a high performance effect because only these contracts provide incentives to employees to use discretionary efforts (Guest & Rodrigues, 2012; Zhao et al., 2007). High performance, therefore, is most likely to occur in organisations with perception by both parties of a high quality normative relational contracts (Lambert et al., 2003; Shore & Barksdale, 1998; Tsu et al., 1997) where management offer the greatest effort-making incentives which the workforce collectively recognises. For Bowen and Ostroff, a strong normative relational contract arises only when there is a shared perception of a high quality contract by *both* parties. Accurate collective sense-making of management messages by employees fosters, not just workforce cohesion, but mutual commitment *between* management and the workforce (Dulac et al., 2008). In turn, a strong normative relational contract creates a strong workplace climate that motivates the workforce (Bowen & Ostroff, 2004): 'a shared organisational climate ... ultimately relates to organisational performance' (Dabos & Rousseau, 2013: 205). Following breach, high performance is sustained by the bonds of loyalty, both collective (within the workforce) and mutual (between workforce and management), that engender workforce reluctance to withdraw discretionary effort.

However, even in workplaces where high quality management contract terms (embedded in practices) are offered to the workforce, there is no guarantee that employees will interpret the

messages accurately (Bowen & Ostroff, 2004). Messages may be unclear, rendering the collective sense-making process ineffective in developing commitment and motivation. They will not elicit high performance as employees' interpretations reflect perceptions derived -- at least in part -- from individual sense-making (Bowen & Ostroff, 2004; Ostroff & Bowen, 2016). Thus, where managers offer high quality relational contract terms but have failed to convince the workforce of their expectations and obligations, breach will be followed by lower efforts in a situation where discretionary efforts are required to maintain high performance.

Finally, in workplaces that only need lower levels of discretionary effort, management offers low quality obligations with fewer inducements to employees. In such workplaces -- whether employees perceive low quality obligations or not -- performance will be low. Thus, any withdrawal of effort following breach will have a low negative impact because discretionary efforts are unimportant.

*Hypothesis 2(a).* The greatest buffering influence on the breach-workplace performance relationship will occur in organisations where there is agreement between management and workforce that the normative relational contract is of high quality.

*Hypothesis 2(b).* The most negative effects on the breach-performance relationship will occur in organisations where managers believe they have offered a high quality normative relational contract but employees disagree.

## Methods

In 2006, we approached the national professional body representing HR managers in Australia (the Australian Human Resources Institute [AHRI]). We used AHRI's electronic communications with members to solicit expressions of interest in research on psychological contracts: 197 senior HR managers indicated their interest in participating in the research and agreed to be further contacted. We also purchased contact details of 4,220 senior HR managers from Impact Lists. A manager survey was mailed to both groups and 761 managers, each representing a unique organisation, responded (AHRI response rate = 59%; Impact List response rate = 15%). Small organisations are least likely to employ an HR manager or systematically adopt HR practices. We therefore focused our data collection efforts on larger organisations.

Managers are the most important organisational representatives in the employment relationship (Rousseau, 1995). Contemporary HR managers are expected to focus on the organisation's strategic mission and their understanding of the organisation's obligations to employees is critical to firm performance (De Cieri & Kramar, 2003). Thus, while line managers are well-placed to interpret individual psychological contracts (Perry & Kulik, 2008), HR managers are the most suitable organisational representatives of the normative contract as it involves practices that are strategically designed to motivate the entire workforce. Further, HR managers are key players in the creation of psychological contracts (Coyle-Shapiro & Kessler, 2000) and are 'ideally positioned to act as organisational informants' (Perry & Kulik, 2008: 553). It is difficult to obtain sufficient responses in large-scale surveys with multi-respondent designs and a knowledgeable key informant may be able to provide accurate information about

organisation-level HR activities that theoretically, though not practically, could be obtained from objective sources (Arthur & Boyles, 2007).

We asked responding HR managers in organisations with 20 or more employees for permission to survey the organisation's employees. We sent employee surveys to the 77 organisations who responded positively. In 43 (56%) organisations -- those with 100 or more employees -- the survey was sent to a random sample of 30% employees. This percentage was recommended by managers we consulted about strategies to encourage the research participation of large organisations. In the remaining 34 (44%) smaller organisations, the survey was sent to all employees. The surveys were distributed by the HR manager and returned directly by the employees to the research team.

Finally, in 2008, we sent a survey to the senior HR managers of these 77 organisations. We received 59 (78%) responses, 57 from managers in organisations with 4 or more employees who had responded to the 2006 survey. Response rates of employees within organisations ranged from 10% to 100% with a mean response rate of 36.7% ( $n = 1,733$ ). This is an above average response rate for data collected from organisations (Baruch & Holtom, 2008). The average number of employees who responded across all organisations was 30 (min = 4 and max = 122). 92% of employees in this sample were employed on a permanent, ongoing basis. Within organisations, an average of 34% of employees was covered by a union-negotiated industrial agreement that specified pay rates and other working conditions.

We examined the representativeness of the employee sample. Australia is dominated by small organisations: 80% of all employing businesses have 19 employees or less (Australian Bureau of Statistics [ABS], 2012). The average number of employees in responding

organisations in our sample was 164. However, the overrepresentation of larger organisations reflects a deliberate sampling decision to exclude organisations with fewer than 20 employees. There were 1,733 employees in the sample, working across 57 organisations. The average employee age was 39.6 years. We compared the demographic characteristics of employees with official estimates for 2007 (the year in which we collected data for the employee survey) from the Australian Bureau of Statistics (Australian Bureau of Statistics, 2008). Just over half the employees in the sample (53%) were male, very similar to the national estimate (ABS = 56%). Just over half (51%) were employed in managerial/professional occupations (ABS = 40%), with 32% in clerical/secretarial/sales/service (ABS = 30%), 9% in craft/skilled manual (ABS = 13%), and 8% in semi-skilled/unskilled manual (ABS = 17%). The employee sample, therefore, while broadly representative with regard to the pattern of occupational distribution, over-represented the highest socio-economic occupational group and underrepresented the lowest.

### ***Measures***

All of the survey items used the following scale anchors: 1 = strongly disagree, 2 = disagree, 3 = neither agree nor disagree, 4 = agree, 5 = strongly agree. Scale variables were constructed by averaging across the component items. Items that measure aspects of the normative contract were drawn from individual psychological contract scales (Dabos & Rousseau, 2004; Tekleab & Taylor, 2003) and reworded. An investigation of the normative contract has been conducted in a previous study by rewording existing scales (Taberno, Chambel, & Curral, 2009). See details below for each measure.

*Outcome variable: Workplace performance (2008).*

The outcome variable was constructed from the 2008 manager survey using questions drawn from an official national survey of Australian organisations, the *1995 Australian Workplace Industrial Relations Survey* (see Morehead et al. [1997] for a detailed description of the survey). These questions are also used in the UK's authoritative official national survey series, the *Workplace Employment Relations Surveys (WERS)*. In comparison with other organisations that did the same kind of work, managers were asked to evaluate their organisation's current performance in relation to three workplace performance issues: labor productivity, satisfaction of customers/clients, and ability to retain essential employees,  $\alpha = .73$ . While labor productivity may also have captured technology and other issues as well as employees' effectiveness, such influences were limited in variability by the fact that organisations carried out the same work. Further, Wall et al. (2004) conducted extensive validation tests for the labor productivity item. They examined samples of UK companies (1998-2001) with the same characteristics as establishments in the WERS datasets and demonstrated convergent, discriminant and construct validity. Satisfaction of customers/clients was used to capture 'discretionary behaviors' of the workforce (Messersmith et al., 2011: 1107). Retention of employees was used to indicate level of workforce commitment (Hausknecht, Rodda, & Howard, 2008).

*Moderator variable: Employees' perception of the quality of the normative relational contract (2007).*

Employees were asked the extent to which they agreed that management had obligations to provide the workforce with the following six incentives: an attractive benefits package, fair



treatment, a relatively secure job, feedback on performance, training, and leadership,  $\alpha = .80$ .

As the normative contract is established between management (via employment practices) and the workforce as a group, the word 'workforce' was substituted for the word 'employee', which was used in the original scales (Taberno et al., 2009). We aggregated data from the employee survey by averaging mean scores in each workplace to produce a continuous measure. High values indicate perceptions of a high quality normative relational contract; low values indicate perceptions of a low quality relational contract.

*Moderator variable: Management perception of the quality of the normative relational contract (2006).*

Managers were asked the extent to which they agreed that management had obligations to provide the workforce with the same six incentives,  $\alpha = .75$ . These items were worded as above. High values indicate perceptions of a high quality relational contract; low values indicate perceptions of a low quality normative relational contract.

*Predictor variable: Employees' perception of management breach of the normative relational contract (2007).*

Employees were asked their level of agreement with five statements: almost all the promises made by my workplace during recruitment have been fulfilled; I feel that my workplace has come through in fulfilling the promises made; so far my workplace has done an excellent job of fulfilling its promises; my workplace has done a good job of meeting its obligations to me; my workplace has fulfilled the most important obligations to me (all items reverse-scored,  $\alpha = .93$ ). These items were drawn from Tekleab and Taylor (2003). The word 'workplace' was substituted for the word 'employer' used in the original scales. We aggregated data from the

employee survey by averaging mean scores in each workplace to produce a continuous measure. High values indicate a high perception of breach while low values indicate a low perception of breach.

The level of agreement continuum is indicated by the interaction of employees' and management perceptions of quality of contract at A in Figure 1,

*Control variable: Normative transactional contracts (2006).*

In practice, psychological contracts comprise both relational and transactional terms (Thompson & Hart, 2006). In many Australian organisations, trade unions help in the development of normative transactional terms (e.g., pay levels) for all employees, both union and non-union, in the same workplace by means of Enterprise Bargaining Agreements with management. Thus, normative relational contracts exist alongside normative transactional terms in employee employment contracts. We included a measure to control for the impact of normative transactional contracts on performance. Managers were asked the percentage of employees at their organisation with their pay set through negotiations with trade unions.

### **Analytical procedures and results**

We used hierarchical moderator regression to investigate the hypotheses in consecutive stages: the relative impact of breach on performance in organisations perceived by employees to offer a strong normative relational contract; and the relative impact of breach on performance in organisations perceived by both management and employees to offer a high quality normative relational contract.

We first assessed the discriminant validity of the measures from the same data source. We used AMOS (Arbuckle 1997) to conduct a confirmatory factor analysis of a two-factor

model with latent variables representing employees' perception of management obligations and employees' perception of managerial breach. This generated  $\chi^2 = 616.7$  (df = 43),  $p < .01$ . The fit indices showed a good fit to the data (CFI = .95; IFI = .95; RMSEA = .08). CFI and IFI values that are closer to 1 reflect better-fitting models (Byrne, 2001) and values of .08 or less for RMSEA indicate good fit (Dilalla, 2000). In addition, we compared the two-factor model against a single-factor model (with a single latent variable representing both measures). The single factor model generated  $\chi^2$  (df = 4) = 3364.8,  $p < .001$  (CFI = .68; IFI = .68; RMSEA = .20). Thus, the two-factor model fit the data significantly better than the single-factor model:  $\Delta\chi^2$  (df = 39) = 2748.1,  $p < .001$ . These results confirm the discriminant validity of the two constructs drawn from the employee survey.

We then conducted a confirmatory factor analysis of a two-factor model with latent variables representing management perception of management obligations and management reports of workplace performance. This generated  $\chi^2 = 35.6$  (df = 34),  $p = ns$ . The fit indices associated with the two-factor model also showed an excellent fit to the data (CFI = .99; IFI = .99; RMSEA = .03). We compared the two-factor model against a single-factor model (with a single latent variable representing both measures). The single factor model generated  $\chi^2$  (df = 35) = 96.7,  $p < .001$  (CFI = .62; IFI = .64; RMSEA = .18). Thus, the two-factor model fit the data significantly better than the single-factor model:  $\Delta\chi^2$  (df = 1) = 61.1,  $p < .01$ . These results confirm the discriminant validity of the two constructs from the manager survey.

We moved on to conduct tests for inter-rater agreement to justify aggregation of employee data to the group level. That is, we examined employees' responses at each organisation to determine whether level of agreement was sufficient to regard employees'

responses as indicative of a group response. Following procedures recommended by LeBreton and Senter (2008), we calculated separate  $rwg(j)$  values for each of the employee multi-item variables.  $Rwg(j)$  is a within-group agreement measure where a target is rated by multiple raters. For employee perception of management breach of the normative relational contract, median  $rwg(j) = .70$ . For a collective or common employee perception of the level of quality of the normative relational contract, median  $rwg(j) = .77$ . A median value of more than .70 is usually considered acceptable (Bliese, 2000). These results suggest that reasonable agreement exists among employees within each organisation for each of these variables.

Descriptive statistics and correlations at the organisation level are presented in Table 1.

*Insert Table 1 about here*

### ***Hierarchical moderator regression***

In order to test the hypotheses, we followed procedures recommended by Aiken and West (1991) and centred the values for the continuous variables before creating three two-way interaction terms and one three-way interaction term. The inclusion of multiplicative terms in regression analyses might raise concerns about multicollinearity, but the variance inflation factors (VIF) associated with our predictors and moderator variables were low. The VIFs of all the variables were close to 1.0, with none reaching 3 in any of the models. These results indicate inconsequential levels of multicollinearity (Hair et al., 1998), in particular, with regard to perception of a low quality contract and perception of breach and associated interactions.

The regression findings are presented in Table 2.

*Insert Table 2 about here*

The control variable and main effects were entered in the first step of the regression. The  $b = .01, p < .05$ ). Although breach was negatively associated with workplace performance, the coefficient was non-significant (normative transactional contract (union negotiated pay) coefficient was positively significant ( $b = -.29, p = ns$ ).

The two-way interactions were entered in the second step. The coefficient on employees' perception of the quality of management obligations  $\times$  employees' perception of managerial breach was significant ( $b = 1.19, p < .05$ ). To better understand the result, we plotted the overall regression equation. Using macros from Dawson (2012), we plotted separate regression lines for organisations where the workforce perceived a high quality normative relational contract and for those where employees perceived a low quality normative relational contract. The plots are shown in Figure 2.

*Insert Figure 2 about here*

These regression lines demonstrate the impact of breach on workplace performance at two levels of employees' perceptions of the normative relational contract (mean  $\pm$  1 SD). We calculated the simple slope coefficients: high quality normative relational contracts,  $b = .01, p = ns$ ; low quality normative relational contracts,  $b = -.50, p < .01$ . These results demonstrate a significantly greater negative influence of breach on performance in organisations where employees perceived low quality normative relational contracts relative to organisations where employees perceived high quality normative relational contracts. Following the introduction of the two-way interactions, change in  $r$ -square = .12,  $p < .05$ . We estimated the effect size of the significant interaction term, which describes the proportion of total variability attributable to that term:  $f$ -square = .07,  $p < .05$ .

The three-way interaction was entered in the third step of the regression. The coefficient was significant ( $b = 3.89$ ,  $p < .01$ ). Using macros from Dawson (2012), we plotted separate regression lines for different combinations of employees' perceptions of high and low normative relational contracts. The plots are shown in Figure 3.

*Insert Figure 3 about here*

We calculated the simple slope coefficients for each regression line. In organisations where management and employees both perceived a high quality normative relational contract: that is, where a strong normative relational contract prevailed,  $b = .16$ ,  $p = ns$ . Where both parties perceived a low quality contract,  $b = -.20$ ,  $p = ns$ . Where employees perceived a high quality contract but management did not,  $b = -.82$ ,  $p = ns$ . Where management perceived a high quality contract but employees did not,  $b = -1.72$ ,  $p < .01$ . Following the introduction of the three-way interaction, change in  $r$ -square = .11,  $p < .01$ . We estimated the effect size of the three-way interaction:  $f$ -square = .13,  $p < .01$ .

Taken together, the results support Hypothesis 2(a) and 2(b) and this model provides the greatest explanatory power (Aguinis, Edwards, & Bradley, 2017).

Finally, we ran several exploratory regressions. First, we included variables to capture individual-based psychological contract influences that might also affect performance. The omission of a variable that measures individual employee perceptions of the quality of the normative contract -- especially in interactions that include quality of HR practices -- might cause the significant performance result for high quality workplaces to be overstated. Following Li et al. (in press) and Dello Russo, Mascia and Morandi (2018), we investigated the influence of two different continuous measures of the variability of employees' perceptions of the normative

relational contract: standard deviation ( $x-1$ , so higher levels represent lower variability) and  $rwg(j)$  in separate twoway interactions with HR practices (employees' perception of quality of management obligations). The results were nonsignificant: standard deviation  $\times$  employees' perception of quality,  $b = 2.03$ ,  $p = ns$ ,  $\Delta r^2 = .04$ ,  $p = ns$ ;  $rwg(j)$   $\times$  employees' perception of quality,  $b = .69$ ,  $p = ns$ ,  $\Delta r^2 = .07$ ,  $p = ns$ . We moved on to include each measure, in turn, in separate threeway regressions that included employees' perception of breach. These results were also nonsignificant: standard deviation  $\times$  employees' perception of quality  $\times$  employees' perception of breach,  $b = .09$ ,  $p = ns$ ,  $\Delta r^2 = .01$ ,  $p = ns$ ;  $rwg(j)$   $\times$  employees' perception of quality  $\times$  employees' perception of breach,  $b = .06$ ,  $p = ns$ ,  $\Delta r^2 = .01$ ,  $p = ns$ . We also included each measure, in turn, as main effects in our own model (Feinberg, Ostroff, & Burke, 2005). The coefficients were nonsignificant: Step 3, standard deviation:  $b = .10$ ,  $p = ns$ ;  $rwg(j)$   $b = .09$ ,  $p = ns$ .

Second, individual psychological contracts also exist if there are staff to whom the normative contract does not apply because they are not permanent employees. Thus, we included in the main regression (separately) two continuous measures comprised of percentage values of non-permanent workers at the workplaces and individual employee perceptions that their 'job is for a limited time'; 1 = disagree - 5 = agree. Both results were nonsignificant:  $b = .01$ ,  $p = ns$ ;  $b = -.07$ ,  $p = ns$ .

In all the above regressions, our existing results were unaffected. We did not include any of these variables in these investigations in our reported regression due to power considerations with a small sample (Hair et al., 1998).

## Discussion

The findings demonstrate that, with regard to the normative relational contract, breach had a negative impact on performance but only in certain circumstances: where management felt there was a high quality relational contract but failed to engender that perception in employees. In contrast, the normative relational contract most constrained employees' negative responses to managerial breach in situations where there was mutual agreement that the normative relational contract was of high quality, that is, where there was a strong normative relational contract as defined by Bowen and Ostroff. (For a discussion of alternative definitions of contract strength, see Farndale & Sanders, 2017.) This result suggests that such a strong normative relational contract 'buffers' (Bal et al., 2010: 253) negative responses to breach. It also lends support to studies which show that the strength of the employment relationship is an important influence on individual and organisational outcomes (Dabos & Rousseau, 2013; Dulac et al., 2008; Lambert et al., 2003; Tsui et al., 1997). Further, as expected, where management does not believe it had offered a high quality normative relational contract -- regardless of employees' beliefs -- performance levels following breach rest between the previous polar cases because discretionary effort is not a part of such contracts. These results support the novel theoretical contribution of this paper in its use of normative relational contract theory (Rousseau, 1995; Rousseau, 2010). They empirically demonstrate the influence of breach on performance in four situations, one of them indicating a strong collective normative relational contract and the other three, different versions of a weaker contract.



### ***Theoretical implications***

Our findings are different from previous studies because they support normative contract theory in its central assertion that a strong normative relational contract between management and the workforce constrains negative reactions to breach. Although Rousseau contends that *all* employment relationships are psychological, the term 'psychological contract' has generally been used to refer to individual relational contracts and the substantial body of work in the field has employed an individualist theoretical approach. An individual-based approach to employee behavior in relation to firm performance has also persisted throughout the evolution of HR theory (see Delery & Roumpi, 2017, for the latest review). For example, it underpins the resource based view of the firm that has influenced most studies since the seminal paper of Huselid (1995). Such research has focussed on the importance of the content of HR practices with regard to engendering employee performance, either explicitly or implicitly. Bowen and Ostroff, however, argued that performance arises from a *collective* sense-making process of employment practices above and beyond their content.

In the context of the widespread use of HR, how far should the normative relational contract approach replace conventional theory? Our study demonstrated that an accurate perception by the workforce (i.e., agreement with management's perception) of the existence of a high quality normative relational contract constrained negative responses to breach. This finding suggests that serious consideration should be given to the importance of the normative relational contract. According to Bowen and Ostroff's body of work, a strong normative relational contract arises where the same high performance (high quality) management obligations apply to, and are recognised, not just collectively by the workforce, but also by both management and the

workforce (i.e., there is mutual agreement between the parties). From this perspective, collectivism and individualism may not be synonymous with 'strong' and 'weak'. While individualist influences are always associated with a weak employment system, from a Bowen and Ostroff perspective, a collective employee sentiment is a necessary but not sufficient for a strong workplace system to prevail. Further studies are recommended to investigate situations where collective sense-making might not result in a strong normative relational contract.

### ***Implications for management and employees***

As many employees -- the large majority in Australia -- are subject to terms of normative relational contracts, these findings warrant attention. Despite the best intentions of management, managerial breach may not be averted. How can HR manage the risks associated with breach? These risks are great because continuing discretionary effort engendered by the normative relational contract is needed to sustain high performance (Conway, Guest, & Trenbeth, 2011). HR management has been accused of subordinating employee priorities to the needs of top management (Rynes, 2004). For example, there has been a long-term move in the USA to 'hard-headed' HR policies (Jacoby, 2003). But our findings suggest that, faced with economic uncertainty, HR management's goals are best served by developing a clearly discernible, strong normative relational contract that binds employees with group-based bonds of loyalty that are stronger than those elicited through individual psychological contracts. Further, once breach has occurred, managers should seek to repair relationships. While trust is generally more difficult to repair with groups than individuals, research shows that employees respond to a display of repentance (Dirks et al., 2011; Kim et al., 2013).

Finally, the results also show that a strong normative relational contract has the potential to bind employees to a relationship of unfair exchange and exploitation: employees allow managers to break their promises with impunity. Psychological contract theory is often criticised for failing to take into account the power imbalance inherent in the employment relationship (for example, Guest, 1998; Guest & Rodrigues, 2012). Employees are far more vulnerable to failed management strategies and negative external influences than shareholders. The terms of the employment contract, therefore, are agreed upon within a framework of inequality. If employees perceive that managers consciously use HR practices in a process of deliberate duplicity (for example, by using voice and shared ideology as manipulation devices), they could react with anger (Lawler & Thye, 1999), causing greater negative consequences to the organisation than withdrawal of effort. Individual employees may be best served by developing transferable skills, allowing them opportunities to find jobs in other organisations. This process may result in 'a shift from ... the exchange of loyalty and commitment for long-term employment security and career progression to ... the exchange of performance for the opportunity to develop marketable skills' (Guest & Rodrigues, 2012: 207). We recommend further studies in this under-researched area.

#### *Limitations and strengths*

The limitations of the study require some comment. The number of workplace cases was small and response rates were low but these are common characteristics of multisource survey data (Schafer & Graham, 2002). We did not investigate the impact of congruence between the parties' perceptions *per se* on workplace performance, but only agreement in the context of employees' perception of breach. This might be a valuable investigation for future researchers, using polynomial regression with a larger dataset. We used multiple informants to elicit

employees' perceptions of management obligations and breach, but the assessment of management perceptions of management obligations and performance relied on a single key informant, in the form of the manager responsible for employment relations. However, many published studies of HR and performance use subjective data as reported by respondents and investigations have concluded that they have considerable validity when compared with alternative, more objective, measures (Wall et al., 2004). Moreover, factual data are less likely than attitudinal data to suffer from common method variance problems (Crampton & Wagner, 1994). Nevertheless, HR managers may hold 'rosy views' (Perry & Kulik, 2008: 270) and, where possible in future research, gathering information from multiple sources (Gerhart et al., 2000) -- including other senior managers and line managers -- is recommended, along with the use of objective measures.

Moreover, we did not directly examine the collective sense-making process and associated emotions that characterise normative relational contracts. Nor did we examine the influence of perceived violation -- an affective response to breach (Morrison & Robinson, 1997; Rousseau & Robinson, 1994) -- on these pre-existing emotions. We recommend that further research investigates this latter issue in a panel data study of breach and violation that includes two waves of employee responses. Future research in this area of emotional responses may also benefit from investigations of the performance impact of different types of breach. The enduring nature of the employment relationship is a fundamental aspect of the normative relational contract: layoff decisions breach the psychological contract in the most fundamental way because they write off employees' sunk investments. They clearly demonstrate the inherent inequality in the employment relationship where only one of the parties has the power to hire and

fire. Thus, layoffs might provoke more hostile reactions than, for example, lack of investment in training.

Further, although in exploratory regressions, we introduced controls for the influence of individual interpretations of the normative contract and also of individual psychological contracts, the level of within-group agreement with regard to the employee variables that we used was sufficiently high to regard employees' responses as indicative of a group response. It may well be, therefore, that individual influences are more important in studies of employees whose responses indicate greater dispersion..

The findings may, in part, also reflect the context of the study. For example, breach – in the form of layoffs – is very prevalent in today's society (Datta et al., 2010). It may be that, at another time when unemployment is low, employees will be less concerned about their company's survival as other jobs are available. Further, while employees may tolerate breaches of relational contracts, the buffering may be only temporary and unsustainable over long time periods or across multiple breaches (Dulac et al., 2008). Moreover, although essential for a study of managerial breach, only one side of the relational contract, in the form of management obligations, was explored. While management usually initiates and develops the employment contract (Guest & Rodrigues, 2012), an examination of the employee side of the contract is recommended. While this study has developed some core paths in the model, it would be valuable to investigate the gaps in the causal chain from breach to performance. Moreover, management and employees' perceptions of employees' obligations could be investigated as part of a pattern of agreement/lack of agreement. Perceptions of employees' breach by both parties

might be interesting though less important with regard to organisational performance, as employees' breach is unlikely to generate a reduction of worker effort.

The study also has considerable strengths. It is valuable because we examined perceptions of HR practices as they applied to the workforce and not to the individual. That is, we directly investigated perceptions of the normative relational contract. The nonsignificance of the variability measures that we included in exploratory regressions may indicate that our focus on perceptions of management obligations to the *group* helped capture collective sense-making in that employees evaluated obligations embedded in the *same* HR practices that *applied to all employees*, implying that some common knowledge had developed. However, while our study took place in a situation where *rwg(j)* values justified a multi-source analysis using means of employee variables as indicative of workplace perceptions, our results may not hold in studies where a broader range of employee perceptions prevails. Therefore, we recommend the inclusion of variability measures in further studies to more comprehensively capture individual perceptions, preferably in higher level interactions, when a larger sample size allows.

In summary, we carried out a novel investigation that hypothesised and investigated employee responses to breach of the normative relational contract. Multisource data allowed us to examine both management and employee perspectives in the same organisation. We were able to match management and employee perceptions of management obligations. Panel data are valuable for a study of behavioral outcomes of the psychological contract (Conway, Guest, & Trenberth, 2011) and the study avoids common method variance in relation to predictor and outcome variables. Overall, our dataset allowed us to investigate variation within the normative relational contract and breach-workplace performance relationship. The findings support

important themes from recent literature (Dulac et al., 2008; Rigotti, 2009) and we recommend further investigations of the normative relational contract, allowing the impact of group responses to breach to receive serious consideration.

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**Table 1**  
Descriptive Statistics and Correlations

	M	SD	1	2	3	4
<i>Control variable</i>						
1. Normative transactional contract	34.23	36.29	----			
<i>Predictor variables</i>						
2. Employees' perception of management breach	2.57	0.71	.01	----		
3. Employees' perception of quality of contract	3.87	0.26	.07	-.25*	----	
4. Management perception of quality of contract	4.11	0.63	.01	-.18	.14	----
<i>Outcome variable</i>						
5. Workplace performance	3.66	0.56	.26*	-.26*	.32**	.18

$N = 57$ .

\*  $p < 0.05$ , \*\*  $p < 0.01$

**Table 2****Hierarchical Moderator Regression Results: Workplace Performance**

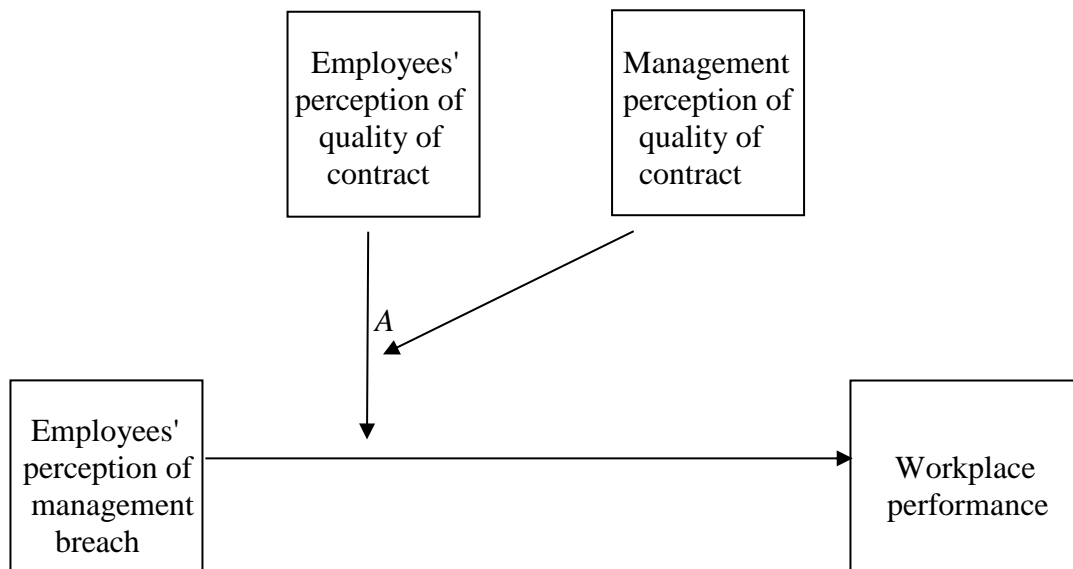
	Step 1 b (s.e)	Step 2 b (s.e)	Step 3 b (s.e)
<i>Constant</i>	3.53** (0.09)	3.53** (0.10)	3.57** (0.09)
<i>Control variable</i>			
Normative transactional contract	0.01* (0.01)	0.01 (0.01)	0.01 (0.01)
<i>Predictor variables</i>			
Employees' perception of management breach	-0.29 (0.21)	-0.28 (0.20)	-0.67** (0.23)
Employees' perception of quality of contract	0.51 (0.28)	0.42 (0.27)	0.28 (0.25)
Management perception of quality of contract	0.09 (0.11)	0.12 (0.11)	0.16 (0.10)
<i>Two-way interaction terms</i>			
Employees' perception of quality of contract x employees' perception of management breach		1.19* (0.53)	1.10* (0.49)
Management perception of quality of contract x employees' perception of management breach		-0.52 (0.38)	-0.19 (0.32)
Management perception of quality of contract x employees' perception of quality of contract		0.77 (0.60)	1.37* (0.60)
<i>Three-way interaction term</i>			
Management perception of quality of contract x employees' perception of quality of contract x employees' perception of management breach			3.89** (1.24)
R-square	0.21	0.32	0.44
Change in r-square		0.12*	0.11**

*N* = 57. Table entries are unstandardized regression coefficients.

\*  $p < 0.05$  , \*\*  $p < 0.01$

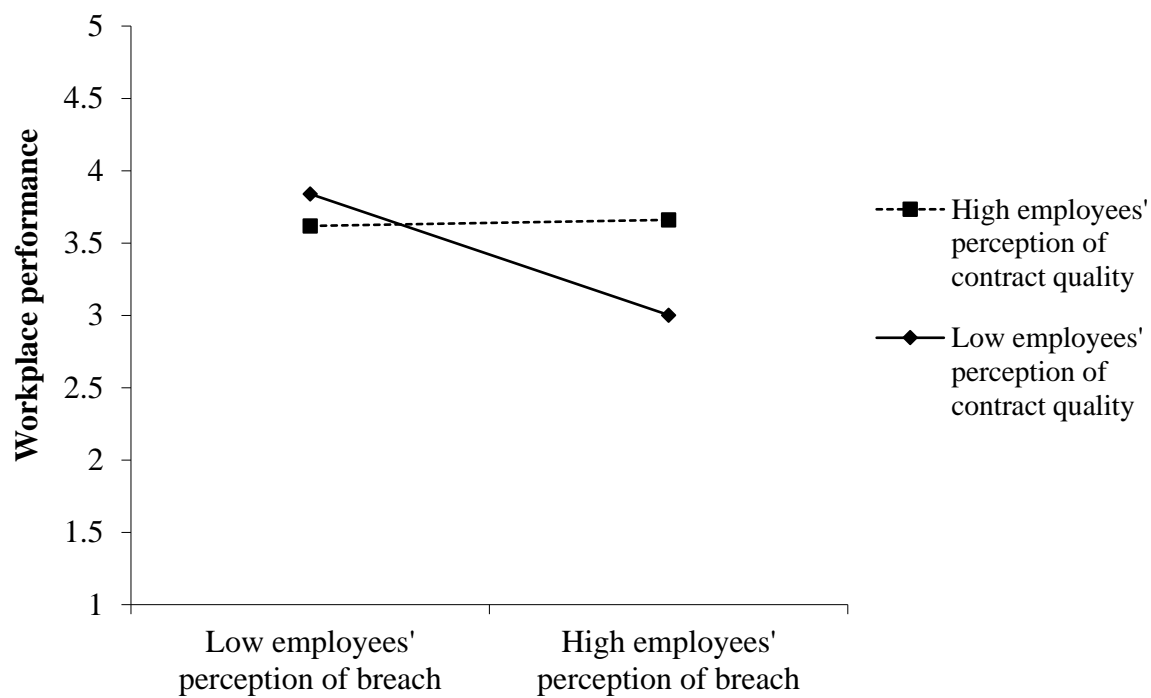
**Figure 1**

Effect of the Normative Relational Contract  
on the Breach-Workplace Performance Relationship



**Figure 2**

Profile Plots for Twoway Interaction





**Figure 3**

Profile Plots for Threeway Interaction

