

AN EXAMINATION OF THE PSYCHOLOGICAL CONTRACT IN THAILAND

Krisda Tanchaisak, Ph.D

Graduate School of Business, Assumption University

ABSTRACT

This study aimed at investigating perceptions regarding psychological contract breaches, it examined the employee's perception, the incongruence between the employee and organization's perceptions, and the employee's perceived importance of each type of psychological contract. Neither party perceived that transactional psychological contract was breached. The employee reported the organization had breached the balanced and relational psychological contracts to a certain extent. The organization agreed it had breached the relational contract but not the balanced contract. The employee reported that the balanced and relational contracts were equally important and they were more important than the transactional contract.

INTRODUCTION

An organization hires an employee for his/her contributions to organizational objectives. The relationship between an organization and its employees is an exchange relationship bounded by contractual agreements. However, a written contract alone is not sufficient to cover the gamut of relationships in organizations, particularly, in Thailand's paternalistic context (Komin, 1991). Three types of job agreements are used in organizations. These agreements are arranged in the form of formal, informal, and psychological contracts (Thylmann, 2003).

A formal contract is a written agreement regarding various terms and conditions of employment and work. It is discussed and signed when an employee is recruited into an organization. This agreement may be modified and changed periodically during the employee's tenure. The formal contract covers required behaviors that the organization expects from its employees and the way in which it treats employees. This kind of contract usually describes specific working conditions such as term of employment, compensation, rules and regulations, etc. (Jackson and Schuler, 2003). A breach of the formal contract can result in charges in the juristic system.

The second type of contract is an informal contract. This type of contract is developed in addition to items written in the formal contract. The content is explicitly communicated and agreed upon.

Organizations might deliver it through verbal communication or memorandum. This kind of agreement is also accepted as a binding contract between the parties (Jackson and Schuler, 2003). The informal contract involves elaborate sets of requirements that are too tedious to be included in the written formal contract. A breach of the informal contract results in counteraction from the other party. An employee who violates the informal contract might be punished through the system such as by earning lower or negative results on performance evaluations or sanctions from peer group, etc. An organization that violates the informal contract might face absenteeism, high turnover, demonstration, or other measures against productivity (Jackson and Schuler, 2003). While formal and informal contracts are explicitly stated and agreed upon, another type of contract is communicated implicitly. It is referred to as a psychological contract.

Psychological contract

A psychological contract is a set of beliefs held by an individual employee about the terms of the exchange agreement between the employee and his/her organization (Rousseau, 1989) and vice versa. It involves perceptions regarding the ways one party expects the other party to behave towards it (Rousseau, 1990). This kind of contract is developed from interactions between an organization and its employees. The parties perceive, believe, or take it

for granted that the other party has offered or made promises, commitments, or obligations in exchange for something from him/her.

Apart from what is written in the formal contract, employees develop economic and normative expectations when they enter an organization. The psychological contract extends beyond formal and informal contracts to cover general issues employees and employers expect from each other. This expectation may not be really offered as perceived. The employee's interpreted expectations may not coincide with the organizations'. The other party may not even intend to offer such a promise. Employees might believe organizations would provide continuous hiring condition, treat them fairly, offer support for their growth, etc. Organizations might take it for granted that the employee intends to stay with them on a long-term basis, is committed to the organization, is loyal, develop his/herself, works for the organization's interests, etc. (Feldhiem, 1999).

Due to the perceptual nature of the psychological contract together with its negative impacts on the relationship between organizations and employees (Raelin, 1984; Robinson, 1996), a careful investigation is needed this matter. Thai culture is a harmonious culture rich in interpretation of meanings in the context (Hofstede, 1991). It is very likely that Thai people would rely heavily on the psychological contract in work settings. Unfortunately, research on psychological contract is scarce in Thailand. Hence, this study aims at exploring this aspect in Thai organizations.

Dimensions of psychological contract

Rousseau (1995) examined psychological contracts based on time frame and performance-reward requirements. Time frame refers to the duration of the psychological contracts (i.e., short- vs. long-term) and performance requirement refers to the specificity of the exchange relationship such as an implicit behavior suggesting monetary rewards for a specific contribution. The combination of these two features results in four forms of psychological contracts: transactional, relational, balanced, and transitional psychological contracts.

A transactional psychological contract is defined as an employment arrangement with a short-term or limited duration, primarily focused upon economic exchange; organizations specify narrow duties and limit worker involvement in the organization

(Rousseau, 1995). Transactional contracts are extrinsically focused (Rousseau, 2000; Rousseau & Parks, 1993). The employee and the organization interpret a set of obligations and commitments relevant to material exchanges and compensations that focus on performance-related matter. The employees expect the organization to compensate them fairly, provide rewards for certain behaviors, and punish or withhold rewards for certain behaviors (Feldhiem, 1999). The organization expects the employee to work well and become a productive member and to do only what he or she is paid to do. The term of employment is for a specific or limited time. The organization does not provide any clues for future commitments. The employee is expected to limit his/her involvement in the organization. There is little or no training or other employee development. The employee and the organization are bonded by promises of exchanged contribution to each other without regard for the emotional bond (Rousseau, 2000).

The second type of psychological contract, the relational contract, is defined as an open-ended or long-term employment arrangement based upon mutual trust and loyalty. Performances and behaviors are left open for interpretations and focus on long term relationships (Rousseau, 1995). Rewards are only loosely conditioned and are derived from membership and participation in the organization. Relational contract is intrinsically and socio-emotionally focused and dynamic (Rousseau, 1995; Rousseau 2000; Rousseau & Parks, 1993). The relational dimension is the expectation about emotional reciprocal relationships within the organization. It involves the human interaction aspect of people in organizations. Employees expect the organization to support interpersonal caring, shared ideals and values, and shared organizational identity (Feldhiem, 1999). The organization is expected to take care of the employee and the employee is expected to be an obedient member in the organization. The relationship is developed based on long-term stability. The employee is obligated to remain with the organization and to do everything that is required for the purpose of keeping his/her job. The organization has committed to offer stable wages and long-term employment. Moreover, the employee is obligated to support the firm, manifest loyalty and commitment to the organization's needs and interests, and become a decent citizen of the organization. The organization has committed to

supporting the wellbeing and interests of the employee and his/her family.

The third type of psychological contract is the balanced psychological contract. The balanced psychological contract is defined as a dynamic and open-ended employment arrangement conditioned on economic success of the organization and the employee's opportunities to develop his/her career advantages (Rousseau, 1995). Both the employee and the organization contribute highly to each other's learning and development. Rewards to the employee are based on performance and contributions to the organization's comparative advantages. These include career or employability development for both internal and external labor market. An employee is obligated to develop his/her marketable skills, develop skills valued by the current, and future, employers, learn and perform new and more demanding goals to enhance the organization's competitiveness in the market. The organization has committed to enhance worker's long-term employability and provide internal advancement career development, create worker career development opportunities within the firm, promote continuous learning and to help the employee to successfully execute escalating performance requirements.

The last dimension of psychological contract is the transitional contract. Rousseau (2000) contended that it is not a psychological contract form itself but a cognitive state reflecting the consequences of organizational change and transitions that are at odds with a previously established employment arrangement. Transitional contract refers to a breakdown or absence of an agreement, i.e. a once-and-over relationship that offers no contribution to benefit from. Characteristics of transitional psychological contract include mistrust, uncertainty, and erosion. The employee mistrusts the organization and the organization mistrusts its employees. The organization has withheld important information from the employee. Furthermore, the employee is uncertain regarding the nature of his or her own obligations to the firm. The organization's measure is uncertain regarding the future commitments to the employee. It has instituted changes that reduce employee wages and benefits, eroding quality of work life compared to previous years. The employee expects to receive fewer future returns from his or her contributions compared to the past and anticipates continuing declines in the future. (Rousseau, 2000).

Violation of psychological contract

It is important that both the organization and employee keep their promises. The breach of psychological contract can significantly determine the employee's undesired behaviors in the organizations and have lasting effects. O'Conner (1999) suggested that organizations should foster personal and subjective satisfaction for employees in order to be productive. Keeping promises is an important factor mediating the moral development within organizations (Kohlberg, 1981). Violation of the psychological contract has negative impacts on productivity (Raelin, 1984). Robinson (1996) reported strong negative relationship between trust and psychological contract breach. Psychological contract breach leads to decreased job satisfaction, decreased organizational commitment, and increased intentions to leave the organization (Robinson and Rousseau, 1994). Hence, it is important to investigate whether employees perceive that their organizations have breached the psychological contract made with them. The first hypothesis was posed as:

H1: Employees perceive that organizations do not meet their promises/commitments/obligations.

It is also important to examine whether the organization perceives that it has really breached psychological contracts. Hence, the next hypothesis was:

H2: The extent to which organizations perceive they have actually breached the psychological contracts is different from the extent to which the employees believe they have.

The perceptual nature of the psychological contracts might be a factor responsible for the perceived breach. Hence, another objective of this study is to explore the differences between employee and organization's perceptions regarding the contract they have made towards each other. The next two hypotheses were posed as:

H3a: There are differences between perceptions of employees and organizations regarding the psychological contract made by the organization.

H3b: There are differences between perceptions of employees and organizations regarding the psychological contract made by the employee.

Employee's reactions to the contract breach are determined by the importance the employee places on the breached outcome (Morrison and Robinson, 1997). It is also necessary to explore the degree of importance that employee place on each type of

psychological contract. In this aspect, culture plays a significant role in shaping perceptions of people. Therefore, it is very likely that the perceived importance of the psychological contracts is determined by cultural factors.

Organizations in Thailand

Komin (1991) contended that Thai culture is a relatively tight, hierarchical social system that strongly value relationships. The norm for social harmony prompts Thai people to compromise with each other. Furthermore, Thai culture values 'face-saving' behavior and it is a key criterion for handling all personal-related decisions. Thai people try to keep 'surface harmony,' even at the expense of some tasks or organizational progress. Thai people are expected to try their best to follow the promises they made in order to save each other's face. People try to maintain relationship above other things. They do not want to 'look bad' in the eyes of others and 'looking bad' occurs when someone breaks the harmony in society.

Furthermore, Thai culture is a high context culture (Hofstede, 1991). People interpret much of the meanings in the interaction from the context. This aspect also holds true in organizations. The organization and the employee expect, if not demand, that each other seek meanings in the employment relationship through the interpretation from the context. When things go wrong people attribute it to misinterpretation rather than a person's fault. An impersonal managerial style is not as effective as a relationship-focused management style. In short, Thai people in organizations are likely to prefer the psychological contract than formal or informal contracts. Much of the time, organizations make formal and informal contracts with their employees but the clauses are left open for interpretation on a situational basis.

It is very likely that Thai employees would perceive that the relational psychological contract is more important than the other types of contract. The next hypothesis was posed as:

H4: Relational psychological contract would be assessed as more important than balance and transactional psychological contract.

METHODOLOGY

A total of 250 questionnaires were distributed randomly, 195 sets were returned. The sample consisted of 130 females and 60 males, 5 subjects

did not report their gender. The average age was 27.7 years old ranging from 20 to 50. Fifty-five respondents had under bachelor level education, 65 subjects had bachelor degrees, and 10 had master degrees. Average tenure with the organization was 3 years 5 months. One hundred and thirty five operatives, 15 supervisors, 25 middle level managers, and 5 high level management were included in the study. Subjects were from finance, insurance, and banking; construction; manufacturing; airlines; and telecommunication industries.

Rousseau (1995) developed and tested the Psychological Contracts Instrument in the US. The constructs of this instrument were tested and confirmed in relationship oriented cultures such as in Hong Kong (Kickul, et. al., 2004), People's Republic of China (Hui, et al., 2004), Singapore (Rousseau, 2000) and in Latin America (Dabos & Rousseau, 2004). These studies confirmed the generalizability of the Psychological Contract Instrument. The reliability of these studies ranged from .78-.94.

The Psychological Contract Inventory (PCI) measures the three dimensions of psychological contract i.e. balanced, relational, and transactional dimensions. Rousseau (2000) suggested that the transitional psychological contract was unstable and represented a termination state since it was about mistrust and uncertainty so it could not be validly determined and was dropped from the instrument. Items in the instrument included obligations regarding long-term employment, loyalty and concern for employee, job security, opportunities to start a project and watch it grow, opportunities for dynamic and challenging performance, scope of responsibility, comparable pay based on industry standard, training and development to enhance employability outside the organization, and resources necessary for performing duties- these were measured to reflect psychological contracts.

Subjects were asked to assess the psychological contract by reflecting their perceptions regarding (a) the extent to which their employers had made such commitments or obligations to them, (b) the extent to which their employers had kept their obligations, (c) the extent to which they had made such commitments or obligations to their employers, and (d) the importance of such commitments or obligations to them. All items used a 6-point Likert scale ranging from 0 (not at all) to 5 (to a great extent) to avoid mid-point tendency.

Information from the organization’s perspective were assessed by the employees’ immediate supervisors through a separate set of questionnaire asking (a) the extent to which the organizations had made such commitments or obligations to the employees, (b) the extent to which they thought the organizations really met their obligations, and (c) the extent to which they thought the employees had made such commitments or obligations to the company. Data obtained from the supervisor were entered in the same record as the corresponding employee to form pairwise analyses. Pairwise t-test was used to assess the differences between each element of the psychological contract in hypotheses 1, 2, 3a, and 3b to test the differences regarding the expected and fulfilled psychological contract dimensions within the same group. The perceived psychological contract breach was

operationalized by the differences between the mean scores of the promises, commitments, or obligations the employee perceived the organization had made to them and the mean scores of the promises, commitments, or obligations the employee perceived the organization had fulfilled.

The objective of hypothesis 4 objective was to test the differences among the employee’s perceived importance among the three psychological contracts. A repeated measures analysis is a very powerful Multivariate Analysis of Variance technique to test several attributes of the same person (Steven, 1986). Hence, it was used to test the differences among the balanced, relational, and transactional psychological contracts. Then, a univariate pairwise t-test was adopted to reveal the differences between each pair.

Hypothesis 1

Paired Samples Test

		Paired Differences			t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean			
Pair 1	emp org offer balance - emp org met balance	.1436	.38127	.02730	5.259	194	.000
Pair 2	emp org offer rela - emp org met rela	.0410	.28422	.02035	2.016	194	.045
Pair 3	emp org offer trnc - emp org met trnc	-.0011	.27609	.01977	-.058	194	.954
Pair 4	emp org offer total - emp org met total	.0732	.25960	.01859	3.936	194	.000

Hypothesis 2

Paired Samples Test

		Paired Differences			t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean			
Pair 1	emp prcv org bal - org prcv org bal	.1402	.72712	.05207	2.692	194	.008
Pair 2	emp prcv org rela - org prcv org rela	-.0205	.50369	.03607	-.569	194	.570
Pair 3	emp prcv org trnc - org prcv org trnc	.0168	.35420	.02536	.663	194	.508
Pair 4	emp prcv org total - org prcv org total	.0593	.43891	.03143	1.885	194	.061

Hypothesis 3a

Paired Samples Test

		Paired Differences			t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean			
Pair 1	emp org offer balance - org org offer balance	-.0957	.80616	.05773	-1.658	194	.099
Pair 2	emp org offer rela - org org offer rela	-.2897	1.05635	.07565	-3.830	194	.000
Pair 3	emp org offer trnc - org org offer trnc	.0915	.95682	.06852	1.335	194	.184
Pair 4	emp org offer total - org org offer total	-.0972	.75668	.05419	-1.793	194	.074

RESULTS

Hypothesis 1

The pair-wise t-test reveal the differences among means scores of employee’s perceived balanced, relational, transactional, and overall psychological contracts the organization had offered and met. The hypothesis was partially supported. The result revealed that the employee perceived that organization had breached the overall psychological contract ($t_{194} = 3.936, p < .05$). Specifically, the employee perceived that organization had breached the balanced ($t_{194} = 5.259, p < .05$) and relational ($t_{194} = 2.016, p < .05$) contracts. The transactional psychological contract was not breached ($p > .05$).

Hypothesis 2

The employee and the organization’s perceptions regarding the organization’s breach of psychological contract were compared. The hypothesis was partially supported. The result revealed that employee’s and organization’s perceptions regarding the breach of overall psychological contract was not significantly different ($p > .05$). However, there was a difference regarding the perception about the balanced dimension ($t_{194} = 2.692, p < .05$).

Hypothesis 3a

Regarding the psychological contracts that the organization had made, the perceptions about overall psychological contract were not significantly different ($p > .05$). The hypothesis was partially supported. There was a significant difference in the perception about the relational contract ($t_{194} = -3.830, p < .05$). Employee’s perception about the relational contract offered by the organization was different from the organization’s perception.

Hypothesis 3b

Hypothesis 3b was not supported. There was no significant difference in regard to the psychological contracts that the employee had made to the organization. None of the difference was significant ($p > .05$).

Hypothesis 4

The repeated measures multivariate test revealed that the employee perceived that these contracts were not equally important (Wilks’ Lambda’s $F_{2,193} = 89.404, p < .05$). Hypothesis 4 was supported. A univariate test revealed that the employee perceived the balanced and relational psychological contracts were equally important ($p > .05$) and both were perceived as more important than the

Hypothesis 3b

Paired Samples Test							
		Paired Differences			t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean			
Pair 1	emp emp offer balance - org emp offer bal	.0051	1.02090	.07311	.070	194	.944
Pair 2	emp emp offer rela - org emp offer rela	-.1795	1.29316	.09260	-1.938	194	.054
Pair 3	emp emp offer trnc - org emp offer trnc	.0769	1.13643	.08138	.945	194	.346
Pair 4	emp emp offer total - org emp offer total	-.0271	.96035	.06877	-.394	194	.694

Hypothesis 4

Paired Samples Test							
		Paired Differences			t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean			
Pair 1	emp bal importance - emp rela importance	-.0846	.68513	.04906	-1.725	194	.086
Pair 2	emp rela importance - emp trnc importance	.7179	.75261	.05390	13.321	194	.000
Pair 3	emp bal importance - emp trnc importance	.6333	.88810	.06360	9.958	194	.000

transactional psychological contract ($t_{194} = 9.958, p < .05$ and $t_{194} = 13.321, p < .05$ respectively).

DISCUSSION

This study served 3 purposes: (a) it investigated the employee's perception regarding psychological contract breaches, (b) it examined the differences between the employee and organization's perceptions regarding the breaches, and (c) it assessed the importance of each type of psychological contract in the eyes of the employee.

The result revealed that the employee and organization's perception of psychological contract breach made by organizations were the same except for the balanced contract. Neither party perceived that the transactional psychological contract was breached. It is likely that mutual understanding is obtained easier than other types of contracts because of its short-term and specific nature.

The employee reported the organization had breached the balanced and relational psychological contracts to a certain extent. The organization agreed it had breached the relational contract but not the balanced contract. The perceptions about promises or obligations regarding the balanced contract made by the organization were quite accurate.

This means the interpretations regarding the balanced contract were similar and both parties accepted that the organization did not fulfil those obligations. People agree that employee development and employability can contribute to the organization's success. Unfortunately, many organizations in Thailand do not take this seriously, especially in case of family business that accounts for 60%-70% of all businesses in Thailand (Ghwee, 2001). Organizations in Thailand have a tendency to hire on a long-term basis as in case of a lifetime employment practice in many typical Asian organizations. People prefer to work with someone they know for a long period of time. Organizations prefer employees who are honest and keep a low profile and they will take care of them, tentatively, for the rest of their lives. Employees are trained to acquire a basic level of job relevant skills. When advanced personnel is needed, organizations might search for qualified persons through its network of relationship, both internally and externally, or fill a family member into the position rather than to spend time and money to build one so there is little need to develop employees. Organizations do not want to invest in developing their personnel's employability,

particularly for other companies, since lifetime employment is intended unless the employee has serious flaws.

Organizations prefer long-term over short-term employment since recruiting new employee incurs costs to the company (Robbins & DeCenzo, 2004). Modern employees, with their ambition to progress, feel the need to develop themselves for future advancement. They are introverted and choose not to rely on the organization anymore. They know they are capable and wanted by outsiders. They are ready to move from organization to organization as springboards for their advancement in both career and compensation. They want organizations to develop them but organizations do not share that feeling. Organizations feel the need to develop employees for the job at hand rather than for their future jobs, because they are not sure whether their current employee will end up working for a competitor. Organizations might have to modify their mindsets and join the trend of exchange and mobility of resources in the market. Employee movement occurs at all time, organizations should let go of some employees and obtain new ones. Imposing rigid measures and obstructing employees from leaving might create stress within the organizations and lead to many undesirable effects. Costs in recruiting might be compensated by injecting new visions and ideas into the company resulting in adjustment and more courageous actions to compete in the changing environment.

Regarding the relational contract breach, organizations declined the accusation made by the employee. They reported they had fulfilled promises and obligations made. This might result from the differences between the perceptions of what was offered. Organizations made some promises regarding the relational contracts but employees did not realize they had made such promises. They were looking at different parts of the same picture. The open-ended nature of the relational contract results in different perceptions regarding the promises or obligations made. Komin's (1991) survey reported that although Thai people need extrinsic rewards, they value "fun" highly in their jobs. Sometimes they act irrationally by quitting the job they perceive is not fun and become unemployed. The breach in relational contract might occur because the employee expects the organization to place more emphasis on the relationship aspect while the organization needs to focus more on the job and maintain relational contract at a certain level. It is very likely that the employee's demand for the

relational contract is more than what the organization is willing to satisfy.

The employee reported that the balanced and relational contracts were equally important and they were more important than the transactional contract. The collectivistic (Hofstede, 1983) nature of Thai people predisposes for the maintenance of relationships within the organization. They demand that organizations enhance this aspect rather than relying on the harsh-feeling transactional contract alone. The flexible, open-ended feature of both balanced and relational contracts suits Thai people's expectations in work. Although Thai culture scores moderate to high on the uncertainty avoidance dimension, it seems the high degree of collectivism overpowers the preference for certainty regarding relationship in work. Komin (1991) found that the highest-ranking Thai value was the "brotherhood spirit" so Thai employee wants to maintain harmony in job. That implies the need for the maintenance of relationships between the employee and organization. Apart from the monetary exchange listed in the formal contract, long-term job security assurance is needed in the form of psychological contract. Thai employees

expect the organization to be caring even at the instance of giving material rewards. The offer of performance-reward exchange should be made politely. Offering money-for-performance directly is considered offensive in Thai culture.

More explicit behaviors are needed to negotiate between the task-oriented and relationship-oriented dimensions of the job (Robbins and DeCenzo, 2004). Organizations need to provide frameworks for the interpretation of open-ended agreement regarding what can be expected and what the organization can do for each aspect of the job. Organizations should design a semi-flexible reward-contribution system and create a system to accommodate employee's need for emotional support. They should use effective organizational communication measures to clarify and promote the relationships dimension in the organization. In conclusion, psychological contract is a very important element in the workplace relationship. Perceptions of the employee do not coincide with the perceptions of the organization, hence adjustments are required in this regard.

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