

PSYCHOLOGICAL CONTRACT AND THE EFFECTIVENESS OF ORGANIZATIONAL CHANGE – A CONTRACT BREACH PERSPECTIVE

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ABSTRACT

The purposes of this study were three folds. First, this work examined the effectiveness of organizational change from the perspective of psychological contract breach. Second, this work investigated the relationship of organizational commitment with employees' perceptions of psychological contract breach. Lastly, according to the context-specific variables, this work examined the relationship of employees' acceptability towards the change effectiveness.

Based on literature review and analyses, this study proposed five propositions as follow:

1. Perception of psychological contract breach will be negatively related to the effectiveness of organizational change.
2. The impact of transactional contract breach on the effectiveness of organizational change is greater than those of the relational contract breach.
3. The more employees participate in the change process, the less they perceive the psychological contract breach which is resulted from the organizational change.
4. The more information about the changes that employees acquire, the less they perceive the psychological contract breach.
5. Organizational commitment moderates the relationship between perceptions of psychological contract breach and the effectiveness of organizational change.

Keyword: Psychological Contract, Psychological Contract Breach, Organizational Commitment, Organizational Change

INTRODUCTION

In recent years, many business organizations adopted amalgamating, layoffs and restructuring strategies to internationalize their businesses, and thus resulted in series of organizational changes. Psychological contract, which referred to the written and unwritten mutual understanding between employees and employers, became an important mechanism to understand the changes of employment relationships (Turnely et al., 2003; Rousseau, 1989; Morrison, 1994; Turnely et al., 2003). Psychological contract was built on employees perceptions of promises and commitment that employers provided, for example, vision and future development of organizations (Pate et al., 2000; Rousseau, 1995; Suazo et al., 2005).

Most of the previous studies adopted the one dimension construct of psychological contract and focused on the consequences of contract breach (for example, Robinson and Morrison, 1995; Turnely and

Feldman, 1999; Robinson, 1996). However, McNeil (1985) contained that the construct of psychological contract was multi-dimensional and was comprised of transactional and relational contracts. Changes of transactional contract were via redefining transactional cost or changing partners, whereas changes of relational contract were via mutual adjustment. Whether the impacts of the transactional contract breach on organizational change were different from those of the relational contract breach deserve investigation. Therefore, the purposes of the present study are three folds. First, this work examined the effectiveness of organizational change from the perspective of psychological contract breach. Second, this work investigated the relationship of organizational commitment with employees' perceptions of psychological contract breach. Lastly, according to the context-specific variables, this work examined the relationship of employees' acceptability towards the change effectiveness.

Literature Review and Hypotheses

1. Perception of psychological contract breach will be negatively related to the effectiveness of organizational change.
2. The impact of transactional contract breach on the effectiveness of organizational change is greater than those of the relational contract breach.
3. The more employees participate in the change process, the less they perceive the psychological contract breach which is resulted from the organizational change.
4. The more information about changes employees acquire, the less they perceive the psychological contract breach.
5. Organizational commitment moderates the relationship between perceptions of psychological contract breach and the effectiveness of organizational change.

CONCLUSIONS

According to Dent and Galloway (1999), employees resisted the organizational changes mainly because they had fears of losing status, compensatory security or convenience. These fears were intrinsic which were similar to motivators proposed by Herzberg (1975). Therefore, this study proposed that in order to improve the effectiveness of organizational change, employer should provide more motivators to employees during the change.

Furthermore, this study proposed that two-way communication should be emphasized to better inform and prepare employees about the changes. This assertion was also supported by several researchers in the field of organizational changes such as Wanberg and Banas (2000). In addition, high degree of organizational commitment increased employee consensus of the needs for changes and thus improved the effectiveness of changes. Therefore, acquiring the knowledge about employee commitments help to administer organizational changes.