



**Effect of Psychological Contract on Employee Job Satisfaction:  
The Case of Guna Trading House Plc.**

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**“Effect of Psychological Contract on Employee Job Satisfaction:**

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Approved by Board of Examiners and Advisor

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## **DECLARATION**

I, the undersigned, hereby declare that the work which is being presented in this thesis entitled “Effect of Psychological Contract on Employee Job Satisfaction:

The Case of Guna Trading House Plc is original work of my own, has not been presented in any of other university and that all sources of material used for the thesis have been duly acknowledged.

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This is to certify that the above declaration made by the candidate is correct to the best of my knowledge.

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## **ABBREVIATIONS**

**PC- Psychological contract**

**JB – Job Satisfaction**

**Plc. – Private limited company**

## **LIST OF TABLES**

Table 4.2.1 Reliability Case Processing Summary

Table 4.2.2 Reliability Statistics

Table 4.3.1 Age of respondents

Table 4.3.2 Gender of respondents

Table 4.3.3 Marital status of respondents

Table 4.3.4 Monthly income of respondents

Table 4.3.5 Length of service (at this organization) of respondents

Table 4.3.6 Education level

Table 4.4 Factors that affect Psychological contract

Table 4.5 Level of Psychological contract

Table 4.6 Level of Job satisfaction

Table 4.7 Correlation analysis

Table 4.7.1 Effect of Psychological Contract on Job Satisfaction

Table 4.7.2 Correlations among Variables

## **LIST OF FIGURES**

**Figure 2.1 Conceptual figure framework**

## CHAPTER ONE

Declaration .....	I
Acknowledgement .....	II
Abbreviations, List of Tables, List of Figures .....	III
Table of content .....	IV -V
Abstract .....	VI

### 1. Introduction

1.1 Background of the study.....	1
1.1.1 Background of Guna Trading House Plc. ....	3
1.2 Problem Statement.....	5
1.3 Research Questions.....	9
1.4 Research objectives .....	9
1.5 Significance of the Study.....	10
1.6 Scope and delimitation of the Study.....	10
1.7 Organization of the study.....	11

## CHAPTER TWO

### 2. LITREATURE REVIEW

2.1 Theoretical literature review .....	12
2.1.1 The concept Psychological Contract.....	12
2.1.2 Conceptualization o f the concept of psychological contract.....	16
2.1.3 The content and the type o f psychological contract.....	17
2.1.4 The theoretical foundation of the psychological contact.....	19
2.1.4.1 Classical social exchange theory.....	19
2.1.4.2 The norm o f reciprocity.....	21
2.1.4.3 Schema and social cognition.....	24
2.2 Empirical Review.....	26
2.2.1 Types of Psychological Contract.....	28
2.2.2 Features of psychological contract.....	29
2.2.3 The content of psychological contract.....	31
2.2.4 Dimensions of psychological contract.....	31
2.3 The concept of Job Satisfaction(JS).....	32
2.4 Psychological Contract and Job Satisfaction.....	33
2.5 Transactional vs. Relational Psychological Contracts.....	33
2.6 Importance of psychological contract.....	35
2.7 Conceptual Framework.....	36

## **CHAPTER THREE**

### **1. RESEARCH METHODOLOGY AND DESIGN**

3.1 Methodology .....	37
3.2 Research Approach.....	37
3.3 Research Design.....	38
3.4 Sample size.....	38
3.5 Validity and Reliability.....	38
3.6 Data source and Types.....	39
3.7 Data collection procedures.....	39
3.8 Ethical Consideration.....	39

## **CHAPTER FOUR**

### **2. DATA ANALYSIS AND DISCUSSION**

4.0 Introduction-----	40
4.1 Response rate-----	40
4.2 Reliability test-----	40
4.3 Profile of respondents-----	41
4.4 Factors that affect Psychological contract-----	44
4.5 Level of Psychological contract -----	45
4.6 Level of Job satisfaction -----	46
4.7 Correlation analysis-----	47
4.8 Correlation among variables -----	48

## **CHAPTER FIVE**

### **3. SUMMARY, CONCLUSION AND RECOMMENDATION**

5. Introduction-----	49
5.1 Summary Findings-----	49
5.2 Conclusion-----	50
5.3 Recommendations-----	51
Reference .....	52
Annex	
• Questionnaire.....	59

## **ABSTRACT**

*The purpose of this study is to examine the relationship between the psychological contract and job satisfaction. Companies that invest more efforts in achieving higher level psychological contract between their employees, employer and organization have more satisfied employees in the organization. The research design is descriptive in nature. A simple random probability sampling has been used to collect the data. The participants in the survey were 213 employees of Gunna Trading House Plc. The tool used for job satisfaction and psychological contract was self-formulated questionnaire. After the analysis, it was concluded that job satisfaction is affected by psychological contract and significant correlation exists between the psychological contract and employee job satisfaction.*

*Key words: Psychological contract, job satisfaction, relationship*

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1 Background of the study

During their employment with a particular organization, employees will seek process, integrate, interpret and derive meaning from information gained from a number of sources, such as co-workers, supervisors and recruiters, as well as the implied and formal employment contract. From this process employees will make their individual interpretations of their obligations and entitlements — that is, their psychological contract with the organization. Psychological contracts first emerge during pre-employment negotiation and are refined during the initial period of employment. Potential employees and organizational agents enter the employment relationship with a set of expectations about the potential relationship. These expectations may be transactional (monetary) and/or relational (non-monetary), and will influence the development of the psychological contract (Robinson and Rousseau, 1994)

Psychological contract therefore refers to the mutual expectations people have of one another in a relationship, and how these expectations change and impact their behavior over time. The term is used mainly to describe the expectations an employee has of the organization and the expectations the organization has of the employee (Argyris, 1960). The dynamic nature of the interaction between the parties to the contract, together with organizational goals and environmental conditions and the goal orientation of the individual, influence the development of the psychological contract (Conway and Briner, 2005).

On the other hand, job satisfaction focuses on the role of the employee in the workplace. Job satisfaction represents a combination of positive or negative feelings that workers have towards their work. Meanwhile, when a worker employed in a business organization, brings with it the needs, desires and experiences which determinates expectations that he has dismissed. Job satisfaction represents the extent to which

expectations are and match the real awards. Job satisfaction is closely linked to that individual's behavior in the work place (Davis and Nestrom, 1985). According to Statt (2004), job satisfaction is defined as the extent to which a worker is content with the rewards he or she gets out of his or her job, particularly in terms of intrinsic motivation.

The term job satisfaction refers to the attitude and feelings people have about their work. Positive and favorable attitudes towards the job indicate job satisfaction. Negative and unfavorable attitudes towards the job indicate job dissatisfaction (Armstrong, 2006). Job satisfaction is the collection of feeling and beliefs that people have about their current job. People's levels of degrees of job satisfaction can range from extreme satisfaction to extreme dissatisfaction. In addition to having attitudes about their jobs as a whole, people also can have attitudes about various aspects of their jobs such as the kind of work they do, their coworkers, supervisors or subordinates and their pay (George and Jones, 2008).

Job satisfaction is a complex and multifaceted concept which can mean different things to different people. Job satisfaction is usually linked with Psychological contract, but the nature of this relationship is not clear. Job satisfaction is more of an attitude, an internal state. It could for example be associated with a personal feeling of achievement, either quantitative or qualitative (Mullins, 2005).

Spector (1997) lists three important features of job satisfaction. First, organizations should be guided by human values. Such organizations will be oriented towards treating workers fairly and with respect. In such cases the assessment of job satisfaction may serve as a good indicator of employee effectiveness. High levels of job satisfaction may be sign of a good emotional and mental state of employees. Second, the behavior of workers depending on their level of job satisfaction will affect the functioning and activities of the organization's business. From this it can be concluded that job satisfaction will result in positive behavior and vice versa, dissatisfaction from the work will result in negative behavior of employees. Third, job satisfaction may serve as indicators of organizational activities. Through job satisfaction evaluation different levels of satisfaction in different organizational units can be defined, but in turn can serve as a

good indication regarding in which organizational unit changes that would boost performance should be made.

Christen, Iyer and Soberman (2006) provide a model of job satisfaction which includes job related factors, role perceptions, job performance and firm performance.

The effect of psychological contract and job satisfaction has captured the attention of researchers as a framework for understanding the employment relationship. The more employees are happy about the relationship in the employment contract the more the increase in commitment to their work and the organization. The purpose of this study is to assess the relationship between psychological contract and job satisfaction in Guna Trading House Plc.

### **1.1.1 Background of Guna Trading House Plc**

Guna Trading House Plc. is a private limited company established according to the Ethiopian code 510ff in 1992. The Company is legally registered as “Guna Trading House Private Limited Company” and its trade mark is protected in the Ethiopian Patent Authority, Certificate no. 4653, with paid up capital of \$10 million and with an average annual turnover of \$100 million. The Company has about 509 qualified and experienced permanent employees. Its head quarter is located in Addis Ababa, Gerji, behind the Jackros Residential units, Bole sub city, Keble 14/15.

#### **1.1.1.1 Vision**

To be globally competitive house of products and services with a billion dollar turnover by 2020

### **1.1.1.2 Mission**

“To be one of the leading import-export trading companies by satisfying customers’ and stakeholders’ needs, so as to boost Owner’s equity”

### **1.1.1.3 Core Values**

- Quality service to customers and stakeholders
- Learning organization
- Internalize the vision of the company passionately
- Ethics of high standard as a milestone
- Continual improvement

### **1.1.1.4 Competitive Advantage**

- Recognize trusted brands that meet customer’s expectations
- The company makes the best use of information and communication technology
- Furnished with high standard warehouses
- Application of Quality Management System(QMS)
- Application of quality circle, kaizen package and other relevant transformational schemes
- Equipped with the state of art of sesame cleaning machine
- Ample opportunities of synergy with sister companies
- Availability of competent, qualified and experienced manpower.

### **1.1.1.5 Business Objectives**

- To be prominent for its reliable service delivery
- To build competent workforce through introducing capacity development programs

- To play a leading role in the country's foreign trade
- To be one of the main distributors of agricultural and industrial inputs and products
- To contribute to the development of an ethical trading culture in the country
- To maximize wealth by entailing on major business lines that contribute to the growth of the nation's economy
- To maximize shareholders' equity

#### **1.1.1.6 Major Business Activities of the Company**

The company is mainly engaged in exporting agricultural products sesame, coffee, natural gum, pulses and spices among others. It also imports industrial products such as tire, reinforcement bar, timber, bitumen, chemical, tractors, water, pumps, and distributes locally product goods such as cement, garment and other textile products among others. On top of this, it serves as commission agent of internationally renowned companies.

### **1.2 Problem statement**

Psychological contract (PC) research is based on one of two theoretical frameworks. The first framework on which PC research is based, is that a lack of PC fulfillment (i.e. breach) robs employees of rewards, leading to feelings of injustice, distrust and betrayal which significantly reduce the level of efforts (AlBattat & Som, 2012; Coyle-Shapiro, 2002; Kickul & Lester, 2001) The second framework is that fulfillment has a positive impact on both parties (Rousseau, 2004). According to Flood, Turner, Ramamoorthy, and Pearson (2005), past research has found that reduced turnover intent, higher job satisfaction and higher levels of commitment correlate with a fulfilled PC.

Within the social exchange theory (Blau, 1964), the PC represents individual beliefs, shaped by the organization, and includes terms of a reciprocal exchange agreement between employer and employee (Rousseau, 1995). These reciprocal responsibilities are

based on the initial employment agreement from which expectations arise, based on the frequency of interaction (Rousseau & Schalk, 2000).

An important factor regarding the PC is the experience of violation, which refers to the emotional response to the occurrence of a breach (which is more cognitive) (Paillé & Dufour, 2013).

Based on Social Exchange Theory (Homans, 1961) research in psychological contract between employer and employees has produced a number of important messages for managers. Despite the academic origins of the term, many managers believe that the idea of the psychological contract offers a valid and helpful framework for thinking about the employment relationship against the background of changing working relationships. Central to this theory is that social relationships have always been comprised of unspecified obligations and the distribution of unequal power resources (Guest, 2004). In terms of organizational analysis, social exchange constructs are clearly evident in the work of Argyris (1960), and Levinson (1962). Argyris (1960) used the term 'psychological work contract' to describe an embeddedness of the power of perception and the values held by both parties (organization and individual) to the employment relationship.

Significantly, this earlier literature illustrates the point that employment relationships are shaped as much by a social as well as an economic exchange. Developing this further, Levinson (1962) saw the psychological contract as a series of mutual expectations of which the parties to the relationship may not themselves be dimly aware but which nonetheless govern their relationship to each other. According to Schein (1978), these expectations between the organization and individual employee do not only cover how much work is to be performed for how much pay, but also a whole set of obligations, privileges and rights. Schein's insightful contribution alerts us to the idea that labor unrest, employee dissatisfaction and worker alienation comes from violations of the psychological contract that are dressed up as explicit issues such as pay, working hours

and conditions of employment which form the basis of a negotiable rather than a psychological agenda.

Psychological contracts differ from legal contracts with respect to procedures followed in the event of violation of contract. When a legal contract is violated, the aggrieved party can seek redress in court of law. Violation of a psychological contract, however, offers no such recourse, and the aggrieved party may choose only to withhold contributions or to withdraw from the relationship (Spindler, 1994). Employees regard violation of psychological contract when there is a perception "... that one's organization has failed to fulfill one or more obligations composing one's psychological contract," (Morrison and Robinson, 1997). In such cases, individuals feel that the other party is unfair to them or has not kept its part of commitment. The violation of psychological contract takes employees' perception as the base and is impacted by individual experiences and values. Insight into the degree of fulfillment, violation of the contract and their causes is important in light of their different consequences for employee behavior (Robinson and Rousseau, 1994).

Job satisfaction is an attitude or variable that reflects how people feel about their jobs. It emphasizes the specific task environment where an employee performs his or her duties and reflects the more immediate reasons to specific tangible aspects of the work environment (Mowday, Porter and Steers, 1982). There are many facets of job satisfaction, with common classifications being pay, promotion, benefits, supervision, co workers, job conditions, and the nature of the work itself, communication and job security. When an employee experiences discrepancy between what was expected and what was received in one or more of these facets, the employee may experience a decrease in job satisfaction especially if these facets were viewed as important by the employee (Robinson and Rousseau, 1994).

Armstrong (2001) states that the level of job satisfaction is affected by intrinsic and extrinsic motivating factors, the quality of supervision, social relationships with work groups and the degree to which individuals succeed or fail in their work. People are

motivated to achieve certain goals and will be satisfied if they achieve these goals. They may be even more satisfied if they are then rewarded by extrinsic recognition. He argues that work-life balance policies define how the organization intends to allow employees greater flexibility in their working patterns so that they can balance what they do at work with the responsibilities and interests they have outside work. The policy indicates how flexible work practices can be developed and implemented. It emphasizes that the number of hours worked must not be treated as a criterion for assessing performance. It sets out guidelines on specific arrangements that can be made such as flexible hours, compressed working week, term-time working contracts, working at home, special leave, career breaks, and various kinds of child care.

Guna Trading house Plc. has a vision to be globally competitive house of products and services with a billion dollar turnover by 2020. This requires an effective employment relationship with a reciprocal fulfillment of obligations from the employer and the employee side. Positive relationship between the psychological contract and employee job satisfaction is vital to have committed and satisfied workers to enhance the company's vision. However, preliminary interview with some employees and managers in Guna Trading House Plc indicate that there is a feeling on the part of employees that there is a lack of compliance with the company rules and regulations in respect of employees hiring, promotion and disciplinary actions. Employees have the feeling that they are not well recognized by the company management and are usually displaced from their positions unfairly, there exists weak time management, lack of commitment and employees are not placed in their appropriate positions based on their qualifications.

On the other hand preliminary interview results from human resource managers indicate that employees are not committed to their work and company although the company is doing its best to satisfy and motivate its employees through competitive wages and salaries, appropriate working conditions and other incentives. This implies there is a gap between the perceptions of employees and the human resource managers of the company. The gap may be due to the psychological contract and its effects on employee job satisfaction. Therefore, the purpose of this study is to assess the relationship between

psychological contract and job satisfaction at Guna Trading House Plc. Being able to better understand how psychological contract affects employees job satisfaction would help the company to prepare itself for when a psychological contract breach does occur and take appropriate measures to satisfy its employees and enhance its vision..

### **1.3 Research Questions**

This study will address the following questions:

- 1.3.1 What factors that affect Psychological Contract?
- 1.3.2 What is the level of Psychological Contract at Guna Trading House Plc.?
- 1.3.3 What is the level of employee job satisfaction at Guna Trading House Plc.?
- 1.3.4 What is the effect of Psychological Contract on employee job satisfaction at Guna Trading House Plc.?

### **1.4 Research Objectives**

The general objective of this study is to assess the effect of psychological contract on employee job satisfaction at Guna Trading House Plc.

Specific objectives:

- 1.4.1 To identify the factors that affects Psychological Contract.
- 1.4.2 To determine the level of psychological contract in Guna Trading House Plc.
- 1.4.3 To determine the level of employee job satisfaction in Guna Trading House Plc.
- 1.4.4 To assess the effect of Psychological Contract on employee job satisfaction in Guna Trading House Plc.

## **1.5 Significance of the Study**

The significance of this study is twofold. From an academic standpoint there are no published papers exploring the empirical relationship between psychological contract and job satisfaction in Ethiopian organizations.

From a practical standpoint, understanding the relationship between psychological contract and employee job satisfaction will assist organizations in understanding if and how human resource practices should be modified.

## **1.6 Scope and delimitation of the Study**

### **1.6.1 Scope of the Study**

This study will focus on the effect of psychological contract on employee job satisfaction in Guna Trading House Plc. The study involves only a sample of 224 permanent employees with at least one year service. Furthermore, this study is a cross-sectional survey in which data will be collected at one point in time.

### **1.6.2 Limitation of the Study**

This research has several limitations. First, this research is cross sectional in nature; as such, it is believed that longitudinal study would better explain these relationships. Secondly, all findings were based on self reported data, while previous studies also used self reported measures (Morrison and Robinson, 1997; Robinson and Morrison, 2000), there may be a possibility of common method error in study. Thirdly, the research will be based on a sample of Guna Trading House Plc. employees and does not necessarily show a pattern that is applicable to all other organizations. Lastly, personal biasness of respondents cannot be ignored. There may be slight variations in the accuracy of the results due to possible human errors.

## **1.7 Organization of the study**

The study will be divided in to five chapters. The first chapter deals with introduction which encompasses background of the study, statement of the problem, research questions, purpose of the study, significance of the study, and limitation of the study.

The second chapter deals with the review of related literatures on job rotation. This part gives a highlight on the theoretical, empirical and conceptual framework of the topic under study.

The third chapter will discuss research methodology which includes research design, sampling size, data type and source, data collection instrument, and ethical consideration.

The fourth chapter is mainly data presentation, analysis and interpretation.

The fifth chapter will cover the summary of findings, conclusions and recommendations.

## **CHAPTER TWO**

### **LITREATURE REVIEW**

#### **2.1 Theoretical Literature Review**

##### **2.1.1 The concept Psychological Contract**

Though Argyris was the first, in 1960, to introduce the concept of the psychological contract to the organizational psychology literature, and much of the early work on the concept was done in the 1960's (Levinson, Munden, Mandl and Solley, 1962; Schein, 1965), its origins can be traced to the much earlier writings of Barnard (1938) and March and Simon (1958) (cited in Roehling, 1997). Barnard's (1938) theory of equilibrium adopts an exchange perspective in order to explore the conditions under which an organization can continue to elicit its members' participation. According to this theory, employees continue to make valuable contributions as long as they receive valued inducements from their employer. March and Simon (1958) further developed the inducements-contributions model, emphasizing both the tangible and the intangible aspects of the exchange. To some extent, March and Simon allude to the idea of an unwritten contract in order to capture the exchange of inducements and contributions between employee and organization. According to Conway and Briner (2005), despite the striking similarities between the concept of the psychological contract and the inducements-contributions model, the influence of March and Simon's model of exchange is rarely recognized in psychological contract theory.

Although the classic definitions of the psychological contract (Argyris, 1960; Levinson et al., 1962; Schein, 1965) emphasized somewhat different aspects, they all saw mutuality as an important element of the contract. For the first time, Argyris (1960) applied the term "psychological contract" in order to describe the social exchange relationship between employees and foremen in a factory. Argyris saw the informal workplace culture and its unspoken norms as the driving force behind the contract. Less explicitly, Argyris described the psychological contract as a mutual agreement on reciprocal exchange

between the group of workers and the foremen: both parties had to have the same understanding of what they were obliged to do in order to maintain the existing psychological contract and a workable exchange relationship. In line with this, Levinson et al. (1962) highlighted the intangible aspects of the relationship and defined the psychological contract as “a series of mutual expectations of which the parties to the relationship may not themselves even be dimly aware but which nonetheless govern their relationship”. The authors also recognized the dynamic nature of the psychological contract by viewing it as evolving over time as a result of the changing needs of the exchange partners, and through the process of reciprocation.

Schein’s (1965) contribution to the development of the concept of the psychological contract is worth noting. Roehling (1997) notes in his review of the origins of the concept of the psychological contract that Schein’s book, *Organizational Psychology* (1965), was quoted in virtually all writings about the psychological contract published in the 1970s and 1980s. According to Schein, the contract presented a key way of analyzing the employee-employer exchange. Like Argyris (1960) and Levinson et al. (1962), Schein emphasized the importance of mutuality: employees would evaluate their contract in accordance with the extent to which there was correspondence between their own and the organization’s expectations. The better the match between employee and employer expectations, the higher, for example, productivity, job satisfaction, loyalty and enthusiasm were likely to be.

Many researchers have sought to define a psychological contract and most of these definitions have echoed similar themes, which include expectations, beliefs, reciprocity, and obligations. For the purpose of this research, the definition that will be utilized states that a psychological contract is an employee’s belief in a reciprocal obligation between the employee and the organization (Rousseau, 1989). Researchers have agreed that a psychological contract is subjective in nature in that it depends on the employee’s point of view regarding what obligations the organization must fulfill (Bellou, 2009; Rousseau, 1989; Rousseau, 1995). As Rousseau (1989) contends, this contract becomes an essential

element to the relationship between the employee and the organization because it affects employee job outcomes.

The development of a psychological contract begins with subjective points of view that the job applicant holds and can be predicated by the belief that there will be reciprocity once the job applicant is hired (Hess & Jepsen, 2009). Rousseau (1989) first defined the nature of a psychological contract, how a contract develops and evolves, what is needed to maintain a contract, and how a psychological contract can be violated.

Rousseau noted that during the initial development of a psychological contract, the organization has either paid for or has offered some sort of consideration in exchange for the promise that the employee will reciprocate. An example of this initial exchange would be the early interaction between the job applicant and the organization in which there is an offer of a job and the job applicant's acceptance of employment. The promises and consideration are both subjective, and the employee normally assumes that the contract is made in good faith, fair dealing, and trust. As part of this interaction, the organization is remunerating an employee to fulfill a set of responsibilities and the hiring manager assumes the employee has been truthful in his or her representation of skills and abilities in order to fulfill a particular role in the company. This initial exchange of promise and consideration sets the stage for the relationship between the employee and the organization.

After the employee begins working at the organization, reciprocal expectations are formed and may contain a range of assumptions, including a mutual understanding that hard work will result in continued employment. Consistent patterns of inducements and contributions over time reinforce the mutual understanding and then lead to the building of trust between the employee and the organization. This leads to the employee's belief that the organization is obligated to continue employment into the future as long as the employee performs well and contributes to the organization's wellbeing (Rousseau, 1989).

Within a psychological contract, it is possible that the employee and the organization may perceive the obligations or expectations differently. For example, the employee may believe that hard work is defined as diligently completing all assigned tasks during the normal 40-hour work week; however, the organization may only reward those who work in the evenings or weekends as well as the normal 40-hour work week.

Although an organization may have expressed expectations or standards for work performance, it is important to emphasize that organizations themselves cannot perceive a psychological contract. Managers may perceive a psychological contract with an employee; however, only employees have psychological contracts, not organizations (Rousseau, 1989).

Overall, the classic definitions viewed the psychological contract largely as an implicit mutual agreement between the employer and an employee or group of employees on the intangible and tangible aspects of the employment contract. However, the concept turned out to be problematic to operationalize in empirical research for the following reasons (Roehling, 1997). First, expectations and obligations were compared on different levels: the individual and the organization. It was not easy to conceptualize and compare the expectations of individual employees with those of the organization as an entity. Second, the measurement of the organization's expectations presented another problem. Some individuals would need to be taken to represent the organization, but who these would be remained unaddressed. As a result of these difficulties, the concept remained underdeveloped for decades and was mainly used as a heuristic tool for describing what was implicit in the employment relationship (Roehling, 1997). Empirical studies were scarce; Kotter's study from 1973 was one of the few empirical works published before the early 1990's. However, in the wake of the apparent changes in the employment relationship towards the end of the 1980s and in the early 1990s, interest in the concept was revived.

### **2.1.2 Conceptualization of the concept of psychological contract**

Rousseau's work (1989, 1995) was central in reviving interest in the concept of the psychological contract, and has given rise to a rapid increase in the number of empirical and theoretical studies stemming from the psychological contract framework (Millward and Brewerton, 1999). Roehling (1997), who reviewed the history and evolution of the concept, argues that Rousseau has had the greatest influence on the psychological contract literature since Schein (1965). According to Rousseau's definition, "the psychological contract refers to an individual's beliefs regarding the terms and conditions of a reciprocal exchange agreement between that focal person and another party" (Rousseau, 1989). Following this definition, most psychological contract studies have defined the construct as the employee's subjective and individual perception of his or her obligations towards the employer, and of the obligations of the employer towards him or her, thereby avoiding the controversy regarding employer representation that limited the earlier empirical research. Yet, Rousseau (1995) stresses that the psychological contract always develops in the course of a relationship - neither individuals nor organizations can form contracts alone - but that the employee and the employer do not need to agree on the contract. Rather, the contract rests in the eye of the beholder. In line with the emphasis on the individual's perceptions of the reciprocal exchange relationship, Rousseau (2001) also proposed a cognitive basis for the psychological contract that is grounded in the concept of schema.

Although Rousseau's (1989) definition of the psychological contract provides the most widely used definition and the basis for most recent research (Conway and Briner, 2005), alternative definitions exist (e.g. Herriot and Pemberton, 1997; Morrison and Robinson, 1997). For example, Herriot and Pemberton (1997) explicitly stress that the contract occurs between an individual and an organization and captures implied obligations. Morrison and Robinson (1997) in turn define the contract as consisting of employee beliefs about promissory obligations. Although contemporary researchers are not in full agreement on whether the psychological contract is about expectations, beliefs or obligations, whether it is implicit or explicit, whether the contract should measure an

individual's perceptions or focus on the interaction between an employee and employer (Arnold, 1996; Guest, 1998), they do agree that the contract refers to an exchange relationship governed by the norm of reciprocity (Conway and Briner, 2005). Consequently, unlike the early definitions of the psychological contract, which tended to emphasize the correspondence and agreement between the exchange parties, the recent psychological contract research has more explicitly emphasized the norm of reciprocity as the key explanatory mechanism underlying the contract (Coyle-Shapiro and Kessler, 2000; Dabos and Rousseau, 2004). In current empirical research, the norm of reciprocity provides the chief explanation for how employee-employer relationships function.

### **2.1.3 The content and the type of psychological contract**

Essentially, the psychological contract is about the deal between an employer and an employee - something is exchanged for something else (Conway and Briner, 2005). Unlike legal employment contracts, these deals are informal and often implicit and indirect, based on perceptions and interpretations of the other's attitudes and behaviors. Therefore, the content of the contract is essentially captured by the implicit and explicit promises that the exchange parties believe they have made and that have been made to them in the course of the evolving exchange relationship.

Examples of some promissory items, from the viewpoint of both the employee and the employer, may include salary, recognition for good work, advancement opportunities, the degree of security in a job, the ability to work productively in a group, loyalty towards the employer, and the ability to see what must be done (Kotter, 1973; Rousseau, 1989). In terms of its scope, the contract captures not only isolated transactions such as 'pay for increased performance', but relates to an entire set of beliefs and perceptions regarding the reciprocal exchange relationship, potentially covering as many as thousands of items (Kotter, 1973). Drawing on theories of schema and cognition, this set of beliefs and perceptions is organized as a hierarchically structured mental model, a contract schema, of the exchange relationship (Rousseau, 1995; 2001).

Due to the nearly endless number of possible contract terms, these terms are usually examined in empirical studies by means of pre-fixed rating scales. Certain obligations, or terms, tend to cluster together and form relatively stable composites. These composites are used as summaries of the contract's content and to describe broad patterns in the contract. Most commonly, researchers have used nominal classifications of transactional and relational contract types (Rousseau, 1995).

Transactional terms can be described by means of specific economic conditions, limited personal involvement, a low level of commitment to the job, pre-defined time frames, little flexibility, lack of development opportunities, and unambiguous terms readily observable to outsiders. Relational terms in turn include high emotional involvement, growth and development in the job, open-ended time frames, expectations of job security, dynamic working conditions, and subjective and implicitly understood terms (Rousseau, 1995). The relational type of contract is hence characterized through its socio-emotional nature by trust, job security and loyalty, whereas the transactional type emphasizes high performance in exchange for high pay (Herriot, Manning and Kidd, 1997).

Although the conceptual distinction between transactional and relational contracts is clear, the existing empirical evidence questions their existence as independent contract types (Conway and Briner, 2005; King and Bu, 2005). Some researchers have noted that the transactional and relational dimensions have been replicated inconsistently across studies (Arnold, 1996; Roehling, 1996). Others argue that psychological contracts may consist of more than two dimensions. For example, Coyle-Shapiro and Kessler (2000) found empirical evidence for three dimensions: transactional, relational and training. Moreover, psychological contract studies typically use specific sets of contract items that make it difficult, if not impossible, to retain consistent transactional and relational types of contract (Conway and Briner, 2005).

Consequently, many researchers have abandoned the relational/transactional distinction in favor of capturing a variety of elements of the psychological contract (e.g. benefits, pay, advancement opportunities, resource support and good employment relationships)

(Robinson and Morrison, 1995; Lester, Tumley, Bloodgood and Bolino, 2002) and others in order to use a global unspecified measure of contract fulfillment and breach (Robinson and Morrison, 2000; King and Bu, 2005; Tekleab, Takeuchi and Taylor, 2005). Moreover, as the employment relationship becomes more individualized and the employment deals more particularistic (Guest, 2004), less fixed ways of measuring the content of the psychological contract could be more appropriate.

#### **2.1.4 The theoretical foundation of the psychological contact**

In reviewing the foundations of the psychological contract in social exchange theory, the classical works of Gouldner (1960) and Blau (1964) are particularly influential. Social exchange theory (Blau, 1964) and the norm of reciprocity (Gouldner, 1960) provide the basis for and the explanatory mechanism underlying the construct of the psychological contract. More recently, psychological contract research has drawn on the concept of schema and social cognition to explain how the psychological contract functions as a mental model of the exchange relationship (Rousseau, 1995; 2001).

Central to the concept of schema is sense-making, which refers to a retrospective conscious process that includes the use of prior knowledge to assign meaning to new experiences that do not match the existing schema (Harris, 1994).

##### **2.1.4.1 Classical social exchange theory**

Social exchange theory offers one of the most influential mechanisms for understanding workplace attitudes and behaviors and provides the theoretical underpinnings for the concept of the psychological contract (Cropanzano and Mitchell, 2005). Homans (1958) was among the first to present the notion of social exchange, implying that exchanges are not only limited to material goods but also include non-material goods with symbolic value. Broadly speaking, social exchange involves individuals' voluntary actions that are motivated by expected and usually received returns (Blau, 1964). Economic exchange

refers to one-off or short term exchange of specified goods, the value of which is stipulated in advance (ibid).

According to Blau (1964), the most defining characteristic of social exchange is that it entails unspecified obligations: while there is a general expectation of return, the nature of the return is not stipulated in advance as in strictly economic exchanges. A social exchange relationship can therefore be defined as a joint production of people's not precisely specified actions, with the actions of each being dependent on the actions of the other (Blau, 1964). Blau also recognizes that social exchange includes elements of both intrinsic and extrinsic importance to the parties involved. It therefore falls somewhere between the two theoretical extremes of exchange, namely an economic transaction and love (Blau, 1964: 112): Social exchange always entails elements of intrinsic significance for the participants, which distinguishes it from strictly economic transactions, although its focus is on benefits of some extrinsic value and on, at least, implicit bargaining for advantage, which distinguishes it from the mutual attraction and support in profound love. ... Social exchange, then, is an intermediate case between pure calculation of advantage and pure expression of love. However, even economic transactions and love relations rarely express the polar processes in entirely pure form, since the multiple gains and costs typically involved in any economic transaction prevent unambiguous calculations of advantage, and since extrinsic benefits are exchanged in love relations and often help to produce mutual affection.

As there is no way of assuring an appropriate return, trusting others to reciprocate, thereby discharging their obligations is essential in a social exchange relationship (Blau, 1964). By discharging their obligations for services rendered, if only to provide inducements in order to receive more benefits, individuals demonstrate their trustworthiness and the gradual expansion of mutual giving is accompanied by the growth of mutual trust. Hence, processes of social exchange, which may originate in pure self-interest, generate trust through their recurrent and gradually expanding character. The timing of reciprocation plays an important role in the development of trust. The too hasty

reciprocation of favors may signal a refusal to stay indebted for a while and hence imply a businesslike relationship consisting of isolated transactions.

The underlying rationale is that willingness to remain indebted for a period of time demonstrates the trust between the exchange partners, thereby serving to strengthen the exchange relationship. Therefore, trust and the willingness to accept the risk of non-reciprocity facilitate the eventual expansion of the exchange relationship. Indeed, in contrast to economic exchange, a social exchange relationship takes time to develop.

For traditional social exchange theorists such as Blau, the implicitness of the obligations, trust and continuity involved set social exchange apart from purely economic exchange. In contrast to specified commodities in economic exchange, the benefits involved in social exchange do not have an exact price and the obligations individuals incur are therefore defined only in general terms (Blau, 1964). Furthermore, sometimes the benefits exchanged are valued primarily as symbols of the supportiveness and friendliness they express, and the underlying mutual support is the main concern for the exchange parties. Hence, if the recipient reciprocates the benefits received, this not only acts as a demonstration of his/her trustworthiness, facilitating future exchange, but may also signal an attraction between the exchange partners. As Homans (1958) has suggested, the frequent interaction allowed by social exchange is sufficient to foster positive feelings between exchange partners regardless of the goods exchanged, provided that each actor benefits from the exchange relationship and has voluntarily chosen to engage in it (i.e. has alternative exchange partners

#### **2. 1.4. 2 The norm of reciprocity**

The norm of reciprocity lies at the heart of social exchange theory and psychological contract theory. Broadly speaking, the norm of reciprocity implies that people should help those who have helped them, and people should not injure those who have helped them (Gouldner, 1960). In other words, the norm of reciprocity implies that “an individual who supplies rewarding services to another obligates him and to discharge

these obligations, the second must furnish benefits in return” (Blau 1964: 89). Simmel (1950) took the extreme view that the first kindness of a person can never be fully repaid, because it alone is a spontaneous gesture of goodwill, a pure gift, to another. According to Simmel, any future favor is prompted by the obligation to reciprocate. Meeker (1971) in turn notes that the norm of reciprocity does not provide the only universal principle of exchange. Other exchange principles include, for instance, rationality with the focus on maximizing gains; equity, according to which people try to get out of the exchange what they think they deserve on the basis of what they have put into it; distributive justice, according to which a person with higher investment deserves higher rewards; competition and rivalry, in which a person tries to obtain more than another person even at an absolute cost; and altruism and social responsibility, in which the goal is to help another person. These various principles of exchange should not be seen as exclusive; several can operate at once (Meeker, 1971).

What distinguishes reciprocity from all the other exchange rules is that it concerns what the two exchange parties contribute and invest in the exchange in relation to what they give, whereas the other principles focus either on what they get out of it or on what they contribute to it. Thus, the norm of reciprocity focuses on “the value of what is gotten in return for the obligations created in the exchange” between the exchange partners (Meeker, 1971: 487). Meeker (1971) argues that different types of exchange relationships may include an expectation of which exchange rules are appropriate to that particular relationship. Each exchange principle can be described as a decision rule that guides the behavior of the exchange partners. While rationality could be argued to be the dominant exchange principle in business relations (Meeker, 1971), in a social exchange relationship the dominant principle is reciprocation, as suggested by the norm of reciprocity. Gouldner (1960: 169) argued that reciprocity is “the pattern of exchange through which the mutual dependence of people brought about by the division of labor, is realized”. Reciprocation can therefore be examined as a process that mobilizes individuals and channels their sometimes egoistic motives into the maintenance of social systems. Usually individuals are interested in maintaining a balance between their inputs and outputs and prefer to stay out of debt in their exchanges. Hence, reciprocity in exchange

implies the existence of balancing forces that creates a strain toward equilibrium (Blau, 1964). While there is always a strain towards balance in social associations, reciprocity at one level necessarily creates imbalance at others. It therefore creates recurrent pressures for re-equilibrium and functions as a dynamic force for social change (Blau, 1964). Gouldner (1960) also refers to the issue of reciprocity imbalance, or in harsher terms exploitation, to describe an unequal exchange or exchange of goods of different value. The implications of a difference in the symmetry of reciprocity are essential in terms of the stability of the social system.

The issue of power is central to the process of reciprocity, and in particular with, regard to reciprocity imbalance. As Gouldner (1960) states, reciprocation depends not only on the benefits received, but also on the power the recipient of the benefit holds relative to the giver. In line with this, Blau (1964) emphasizes that individuals derive their power from the exchange relationship, essentially giving a relational definition of power. Specifically, Blau (1964) conceptualizes power “as resting on the net ability of a person to withhold rewards from and apply punishments to others”.

Individuals are interested, at least, in maintaining a balance between inputs and outputs and in staying out of debt in their social relations; hence the strain toward reciprocity. Driven by their ultimately rational aspirations, however, individuals are often interested in achieving a balance in their own favor and attempt to accumulate credit that makes their status superior and more powerful than that of their exchange partner; hence the strain toward imbalance. This is particularly the case in social exchange relationships characterized by lower levels of trust.

Gouldner’s (1960) classic work recognized the existence of two different types of reciprocity, namely heteromorphic and homeomorphic reciprocity. The former occurs when the content of the exchange between two parties is different but equal in perceived value and the latter where the content or the circumstances under which the benefits are exchanged are identical. Later, Sahlin (1972) conceptualized three different forms of reciprocity based on three dimensions:

(i) immediacy of returns - the time by which the recipient needs to reciprocate in order to discharge the obligation, (ii) equivalence of returns - the extent to which exchange partners return the same resource, and (iii) interest - the degree to which exchange partners have an interest in the exchange process. From these three dimensions, Sahlins (1972) outlines three forms of reciprocity: generalized, balanced and negative. The generalized and balanced forms of reciprocity both capture a positive cycle of reciprocation, but describe very different exchange processes. Negative reciprocity is characterized by a taking orientation in which the exchange partners have opposite interests and attempt to maximize their own benefits at the expense of the other.

Generalized reciprocity is characterized by altruistic orientation, where there is a lack of concern over the timing and the content of the exchange. Trust is essential in an exchange governed by generalized reciprocity, as the timing and content of the acts of reciprocity is not specified. Balanced reciprocity, on the other hand, is characterized by a quid pro quo approach to the exchange, implying a more businesslike relationship. As the exchange is driven largely by self-interest, it is not possible to rely on the goodwill of the exchange partner and honoring the exchange deals to the letter is necessary.

#### **2.1.4. 3 Schema and social cognition**

In addition to social exchange theory and the norm of reciprocity, central to the conceptualization of the psychological contract is an individual's subjective perceptual cognition (Rousseau, 2001). Namely, the concept of the psychological contract captures the exchange partner's perceptions of the reciprocal exchange, not the real exchange as such. This perceptual cognition can be described as a schema regarding the employee-employer exchange (Rousseau, 2001; 2003). A schema can be defined as a cognitive structure or a mental model that represent one's knowledge about a given concept or stimulus domain, about its attributes and the relationships between these attributes (Fiske and Taylor, 1984). This knowledge is stored in an abstract form rather than as a collection of details and the information is organized in a top-down fashion; in such a

way that lower-level information is used to create a higher level of meaning, as related experiences accumulate.

Consequently, a schema is a mental model of conceptually related elements that gradually develops from experience and guides an individual's interpretation of the surrounding social world (Fiske and Taylor, 1984; Harris, 1994). People may have schemas about other people (e.g. what is a typical doctor), about themselves (personality, appearance and behavior) and events (an understanding of what typically happens on certain occasions).

Schemas guide the individual's perception of incoming information, the retrieval of stored information and the inferences based on that information so that it is relevant to and preferably consistent with the existing schema (Fiske and Taylor, 1984).

Consequently, a schema as organized generic prior knowledge enables individuals to function in a social world that could otherwise be paralyzing in its complexity. In other words, schemas make everyday life easier, as they help individuals to process information efficiently, fill in informational gaps, and provide templates for problem solving and facilitate the planning of future action (Harris, 1994). A perseverance effect is a major feature of a schema: schemas tend to persist stubbornly even in the face of contradictory evidence that could potentially prove them false (Fiske and Taylor, 1984).

Consequently, individuals tend to ignore contradictory information or inconclusive evidence and attempt to reinterpret the information or evidence as if it supported the existing schema.

Though people tend to make the incoming information fit the schema rather than vice versa, schemas do change (Fiske and Taylor, 1984). While individuals can for most of the time rely on their schemas as 'habits of mind' and let them guide their interpretation and behavior (Louis and Sutton, 1991), there are certain conditions that cause individuals to question their schema. When this happens, individuals switch to active and conscious thinking, which can be called sense-making. Sense-making refers to a retrospective

conscious process that includes the use of prior knowledge to assign meaning to new stimuli that do not fully fit the existing knowledge (Harris, 1994). Consequently, unexpected events that are discrepant with the existing schemas may confront individuals' schemas and call for active sense-making and result in modifications in the existing schema structure (Luis and Sutton, 1991; Harris, 1994).

In summary, a closer review of the classical social exchange theory and the norm of reciprocity suggest that there are different types of social exchange relationships that all draw on the general principle of reciprocity. The specific form of reciprocity concerned, together with trust and power, plays a central role in distinguishing the different types of social exchange relationships. Theories of schema in turn suggest that schemas develop gradually, but once established tend to be rather stable. A discrepant event such as contract breach that contradicts the schema induces a sense making process that may result in changes in the schema.

Following social exchange theory, psychological contract theory views the employee employer exchange relationship as a cycle of conferring benefits and the norm of reciprocity represents the general key explanatory mechanism that underlines the concept (Rousseau, 1995; Coyle-Shapiro and Kessler, 2002). The extent to which employers fulfill their perceived obligations has consequences for the degree to which employees perceive and fulfill their obligations and engage in attitudinal and behavioral reciprocation. Similarly, the extent to which the employee fulfils his/her part of the deal influences what the employer contributes to the exchange relationship.

## **2.2 Empirical Review**

Based on Social Exchange Theory (Homans, 1961) research in psychological contract between employer and employees has produced a number of important messages for managers. Despite the academic origins of the term, many managers believe that the idea of the psychological contract offers a valid and helpful framework for thinking about the employment relationship against the background of changing working relationships. The

literature on the psychological contract has expanded considerably over the past years, primarily under the influence of Rousseau (1989; 1995; 2001). However, the concept has a much longer and deeper pedigree, with its antecedents evident in earlier work on social exchange theory. Central to this theory is that social relationships have always been comprised of unspecified obligations and the distribution of unequal power resources (Guest, 2004). In terms of organizational analysis, social exchange constructs are clearly evident in the work of Argyris (1960), and Levinson (1962). Argyris (1960) used the term 'psychological work contract' to describe an embeddedness of the power of perception and the values held by both parties (organization and individual) to the employment relationship.

Significantly, this earlier literature illustrates the point that employment relationships are shaped as much by a social as well as an economic exchange. Developing this further, Levinson (1962) saw the psychological contract as a series of mutual expectations of which the parties to the relationship may not themselves be dimly aware but which nonetheless govern their relationship to each other. According to Schein (1978), these expectations between the organization and individual employee do not only cover how much work is to be performed for how much pay, but also a whole set of obligations, privileges and rights. Schein's insightful contribution alerts us to the idea that labor unrest, employee dissatisfaction and worker alienation comes from violations of the psychological contract that are dressed up as explicit issues such as pay, working hours and conditions of employment which form the basis of a negotiable rather than a psychological agenda.

Psychological contracts differ from legal contracts with respect to procedures followed in the event of violation of contract. When a legal contract is violated, the aggrieved party can seek redress in court of law. Violation of a psychological contract, however, offers no such recourse, and the aggrieved party may choose only to withhold contributions or to withdraw from the relationship (Spindler, 1994). Employees regard violation of psychological contract when there is a perception "... that one's organization has failed to fulfill one or more obligations composing one's psychological contract," (Morrison

and Robinson, 1997; 226-231). In such cases, individuals feel that the other party is unfair to them or has not kept its part of commitment. The violation of psychological contract takes employees' perception as the base and is impacted by individual experiences and values. Insight into the degree of fulfillment, violation of the contract and their causes is important in light of their different consequences for employee behavior (Robinson and Rousseau, 1994).

### **2.2.1 Types of Psychological Contract**

Psychological contract by the presence of different subjects divided into two categories: Employee Psychological Contract and Organizational Psychological Contract. And each category contains two aspects: Organization of staff responsibility, saying the organization responsibility or employer liability; Employees of the responsibilities of the organization said the employee liability or an employee responsibility.

The relationship between employees and the organization, in addition to the content of the formal employment contract provisions, but also the existence of implicit, informal, mutual expectations unpublished note, this is a psychological contract. If an organization only emphasizes economic contract, ignoring the psychological contract, employees often manifested in lower satisfaction, because all their expectations have not been met. They might reduce their contributions to the work.

On the other hand, if the employee's psychological expectations and economic aspirations can be met, they tend to experience the satisfaction willing to stay in this organization, and work hard. Psychological contract is also an important determinant of employee behavior. Although the labor contract as a contract for the establishment of conditions for consent of the parties, but for the employees affected, but the relationship between personal experience and characteristics of employees with the organization's history and the larger social context. These factors are intertwined; they constitute an integral part of the employment relationship - psychological contract. When employees feel negative emotions and subsequent behavioral and psychological contract breach when the

enterprise is produced, the core group is anger, the staff thinks they have been unfairly treated, it encourages individuals to re-evaluate their relationship with the organization, and organizational commitment, job involvement, job performance, job satisfaction and employee turnover are adversely affected.

## **2.2.2 Features of psychological contract**

### **2.2.2.1 Subjectivity**

Content psychological contract is the responsibility of individual employees for mutual recognition, or a kind of subjective feeling, rather than the fact that mutual responsibility itself.

### **2.2.2.2 Individual differences**

For the relationship between the individual and his organizations have their own unique experiences and insights, therefore, individual psychological contract may be inconsistent with the content of the employment contract, may also be other person or third party (such as an organization's agent) to understand and explain inconsistent.

### **2.2.2.3 Dynamic**

Formal employment contract is generally stable, with little change. But the psychological contract was in a constant state of change and revision. Any relevant work organization changes, whether physical or social, have an impact on the psychological contract; people working in an organization also affect the range of time covered by the psychological contract.

The longer working hours, the content implied mutual expectations between employees and the organization and responsibilities of the more.

There are differences between the psychological contract and expectations.

Psychological contract is not only desirable properties, including responsibilities and obligations and reciprocal commitments. It includes the contents of those employees believe they are entitled to and should get something. Distinguish between these two concepts have a practical significance, generated when the expectations are not realized mainly produce a more intense negative emotional responses and subsequent behavior disappointment, psychological contract breach, and its core is an anger, employees feel the organization treachery, they have been unfairly treated. It encourages individuals to re-evaluate their relationship with the organization, and organizational commitment, job performance, job satisfaction and employee turnover have an adverse effect.

First, the psychological contract parties not unilateral. Individual party expectations or beliefs constitute both the psychological contract. Wherein the parties can not only be individuals, groups and organizations may be. Second, the psychological contract is also desirable that tacit agreement of the parties. That is, the psychological contract is part of the agreed issues of common concern in the party. If their psychological expectations, beliefs and did not let each other perception was acknowledged, it is just a unilateral wishful thinking.

Consensus was not reached expectations; beliefs do not belong to the category of psychological contract research. Third parties understand their rights such tacit agreements and obligations expected to be borne. If the other party does not fulfill the corresponding obligation of the rights of one's own damage, it will make some in the psychological and behavioral reactions. Fourthly, the parties did not express their expectations and promises by the apparent form orally or in writing directly and clearly, but in certain situations and cultural background, through mutual awareness, understanding and exchange of hint, and then psychologically recessive agreements reached. The above three reflect the above meaning of the "contract" essential attribute of this genus concept, except verbal contract sucked fourth psychological contract and other belong to different species, written contracts and other off essential attribute.

### **2.2.3 The content of psychological contract**

Robinson, Kraatz, Rousseau (1994) did some empirical studies in the contents of psychological contract. Staff believes that the seven factors of the responsibility of the organization are: Enrichment work, fair wages, growth opportunities, promotion, adequate tools and resources to support the work environment, and attractive benefits [9]. While staff believes that eight projects of employees' responsibility are: Loyalty, work overtime voluntarily to do those tasks required of non accept moving requirements, competitors refused to provide support, protection of private information organization, advance notification before leaving, in the organization of work at least two years.

Most researchers and practitioners believe that the content of the psychological contract in recent years, great changes have taken place. Hiltrop (1995) using a model of these changes are summarized which is divided into eight categories: Focus, Forms, Foundation, Responsibilities of employers, Responsibility of employees, Contractual relationship and Career Management. They generalize on the basis of interviews with 25 projects cluster analysis, seven projects using factor analysis also proved the existence of seven factors.

### **2.2.4 Dimensions of psychological contract**

Two-dimensional structure MacNeil (1985) proposed a conceptual contractual relationship is divided into two categories: transactional and relational. Relational psychological contract is employment contains both socio-emotional openness structures. Transactional psychological contract is a highly concerned about the structure of short-term economic factors. High performance teams always stand in the between of Relational psychological contract and Transactional psychological contract.

Robinson, Kraatz, Rousseau (1994) conducted an empirical study, based on the content of the psychological contract research, factor analysis; we found two significant factors, namely: transactional factor and relational factor. Transactional factor reflects the

employee to work overtime, work duties outside the cost, in exchange for high compensation, performance incentives, training and career development organizations, based on economic exchange based on contractual relations. Relational factor reflects the employee to work long-term, loyal and willing to accept the cost of internal work adjustment, in exchange for long-term job security organizations, community based emotional exchange based on contractual relations.

### **2.3 The concept of Job Satisfaction (JS)**

JS is an attitude or variable that reflects how people feel about their jobs. It emphasizes the specific task environment where an employee performs his or her duties and reflects the more immediate reasons to specific tangible aspects of the work environment (Mowday, Porter and Steers, 1982). There are many facets of job satisfaction, with common classifications being pay, promotion, benefits, supervision, co workers, job conditions, and the nature of the work itself, communication and job security. When an employee experiences discrepancy between what was expected and what was received in one or more of these facets, the employee may experience a decrease in job satisfaction especially if these facets were viewed as important by the employee (Robinson and Rousseau, 1994).

Armstrong (2001) states that the level of job satisfaction is affected by intrinsic and extrinsic motivating factors, the quality of supervision, social relationships with work groups and the degree to which individuals succeed or fail in their work. People are motivated to achieve certain goals and will be satisfied if they achieve these goals. They may be even more satisfied if they are then rewarded by extrinsic recognition. He argues that work-life balance policies define how the organization intends to allow employees greater flexibility in their working patterns so that they can balance what they do at work with the responsibilities and interests they have outside work. The policy indicates how flexible work practices can be developed and implemented. It emphasizes that the number of hours worked must not be treated as a criterion for assessing performance. It sets out guidelines on specific arrangements that can be made such as flexible hours,

compressed working week, term-time working contracts, working at home, special leave, career breaks, and various kinds of services.

## **2.4 Psychological Contract and Job Satisfaction**

Theoretical model of psychological contract violation (Morrison and Robinson, 1997) proposes that when an employee perceives a discrepancy in the reciprocal promises made between the employee and the organization, their response may manifest as job dissatisfaction, with resultant increase in absenteeism and turnover (Griffeth, Hom, and Gaerther, 2000). If dissatisfied employees remain in the organization, they may engage in counterproductive behaviors such as poor service, destructive rumors, theft and sabotage of equipment, absenteeism and turnover. These counterproductive behaviors result in financial costs to the organization in terms of lost productivity and replacement costs.

Dissatisfied employees have also been found to report such symptoms as tension, anxiety, disturbed sleep patterns, tiredness, depression and stiffness in muscles and joints (Spector, 1997). These represents a very significant cost to the psychological and physical well being of the employee, indirect financial cost to the organization and sub optimal performance. Psychological Contract theory (Rousseau, 1995) suggests that employees with family responsibilities may negotiate new psychological contracts that include family responsive benefits such as flexible work hours. Among the 160 managers examined in a cross sectional study, results reveals higher levels of job satisfaction on perceived psychological contract fulfillment.

## **2.5 Transactional vs. Relational Psychological Contracts**

Extensive research has established that psychological contracts can be portrayed in two different ways: transactional and relational. A transactional contract is based on economic or extrinsic factors, tends to be specifically defined, and its time frame is finite and short-term (Alcover, Martínez-Iñigo, & Chambel, 2012; De Cuyper & De Witte, 2006).

Employees with a transactional psychological contract may expect financial and material exchanges for their work and have a short-term commitment to their obligations.

For example, sales employees may expect to receive a spot bonus if they reach their sales goals for the week. This financial incentive motivates employees to perform well in a short period of time but generally does not result in high performance in the long term. A transactional psychological contract does not vary over time, has a narrow scope, is public and observable by others, and tends to be associated with careerist motivations on the part of the employee (Rousseau, 1990).

In general, employees whose psychological contracts are portrayed as transactional base their contracts on financial rewards, money, and being paid on time (Bellou, 2009; De Cuyper & De Witte, 2006; De Hauw & De Vos, 2010). Because transactional psychological contracts are close-ended, specific, and are based on extrinsic and economic factors, employees with this type of contract generally do not envision themselves working for their current organization in the long-term. The short-term perspective is due to the fact that employees with a transactional psychological contract are not driven by factors that facilitate loyalty to the organization.

Compared to a transactional psychological contract, employees with a relational psychological contract may believe that there is more to their relationships with their organizations than economic exchange. A relational psychological contract is developed through non-economic, socio-emotional, and intrinsic factors founded on trust and organizational commitment. A relational psychological contract is open-ended, indefinite, dynamic, and has a broad scope (De Cuyper & De Witte, 2006; Rousseau, 1990).

Employees whose psychological contracts are portrayed as relational may base their contracts on status, recognition, the chance to be creative (Bellou, 2009), job security, work/ lifestyle balance, training (De Hauw & De Vos, 2010), career development (Bellou, 2009; De Hauw & De Vos, 2010), and promotions (Alcover et al., 2012; Kickul & Lester, 2001; Rousseau, 1995). Some employees base their psychological contracts on

status or recognition, which may simply mean that the employee expects a “good job” or a congratulatory email from his or her boss when a major project has been successfully completed. Other employees, which may include engineers or research and development teams, may base their psychological contracts on whether they get opportunities to be creative with their work. For example, Google, Inc.® provides all employees with the opportunity to devote up to 20% of their workweek to a project of their choice (Crowley, 2013).

## **2.6 Importance of psychological contract**

Guest and Conway (2000) put forward two advantages to the study of the psychological contract. Firstly, the psychological contract is valuable because it recognizes the individualization of the employment relationship. Both parties in the employment relationship ' employer and employee ' have their own views on the mutual obligations. The psychological contract is about subjective perceptions. Secondly, although the psychological contract contains the expectations and concerns of the individual employee, it also allows the contextual factors to shape individual attitudes and behaviour. These contextual factors include company policy, union role and organisational climate. On the other hand, the psychological contract framework also allows for an active individual, who can change the deal (i.e. his/her attitudes and behaviour) when his or her expectations are not being met.

In general, one can state that human resource practices influence employee attitudes and performance largely through the psychological contract (Guest & Conway, 2000). The psychological contract therefore provides a useful and interesting framework for understanding these attitudes and behaviors.

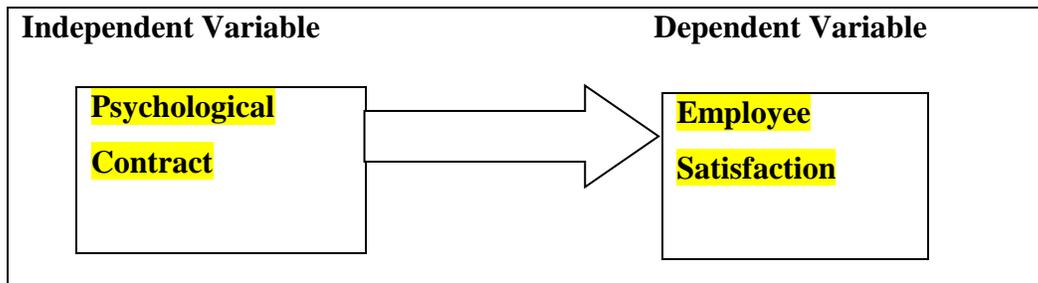
Psychological contract is individual’s belief regarding reciprocal obligations in a dual relationship such as employment (Sebastian, 2015). Psychological contract refers to the expectations which employee and employer have from each other and what they owe to each other (Agarwal, 2014). Psychological contract deals with implicit reciprocal

promises and obligations, the employer and the employee to manage differences pertaining to personality characteristics, demographic factors, and environmental, organizational characteristics and to correct the deviations for enhancing organizational performance and well-being of employees. Rousseau classifies psychological contract into two i.e. transactional contract and relational contract to define the kind of employer – employee relationship. Relational contracts concern a relationship built on trust, implicit emotional attachment and long term employment. Transactional contract is short term, monetary based, limited emotional attachment, direct exchange and identifiable competencies (Rousseau, 2000).

## 2.7 Conceptual Framework

The conceptual framework of this study is depicted in the following figure which indicates the independent and dependent variables.

**Figure 2.1 conceptual figure framework**



**Source: Author (2018)**

## **CHAPTER THREE**

### **3. Research Methodology and Design**

#### **3.1 Methodology**

Data will be collected from the employees from Guna Trading House Plc. using questionnaire method. Structured questionnaire is prepared covering different dimension of psychological contract and employees' job satisfaction and its different dimensions. Employees were provided with the questionnaire to fill after they are introduced with the purpose and confidentiality of their responses. A total of 224 employees will participate in the study randomly selected from the total employees who have worked with the Plc. for more than a year.

The survey questionnaire consists of four sections. The first section contains questions that deal with respondents' demographic profile. The second section is concerned with factors that affect Psychological Contract, the third section with psychological contract and the fourth part covers employees' level of satisfaction with different attributes respondents will be asked to indicate their level of agreement with each of the 17 attributes related to psychological contract and 7 attributes related to job satisfaction in a five-point Likert-scale ranging from 1 (strongly disagree) to 5 (strongly agree).

#### **3.2 Research Approach**

Quantitative approach will be used to answer the research questions. This is based on the assumption that quantitative method will be sufficient to address the research problem. A quantitative research enables the researcher to collect objective and numerical data to apply statistical tools to assess the relationships of the variables used in this study.

### 3.3 Research Design

Research design is the blueprint for fulfilling research objectives and answering research questions. It is a master plan specifying the methods and procedures for collecting and analyzing the needed information (John Adams, Hafiz T.A. Khan, Robert Raeside & David White, 2007). The study will be a descriptive and explanatory study which sought to identify the effect of PC and JS since the data collected will be described as it exists.

### 3.4 Sample size

A Simplified Formula for Proportions developed by Yamane (1967) is used to calculate the sample size. According to this formula the sample size is calculated as follows:

A 95% confidence level and  $P = .5$  are assumed for the Equation

$$n = \frac{N}{1 + N(e)^2}$$

Where  $n$  is the sample size,  $N$  is the population size, and  $e$  is the level of precision.

Therefore the sample size will be:

$$n = \frac{N}{1 + N(e)^2} = \frac{509}{1 + 509(.05)^2}$$

$$= 223.98 = 224$$

### 3.5 Validity and Reliability

In order to ensure the validity of survey instrument, the initial questionnaire was given to a panel of experts and faculty members to judge its content's validity, the clarity of its items meaning and to assure its linkages with the study objectives. In order to validate the reliability, the questionnaire was pilot tested using 15 respondents, representing 7% of the total sample size, who were considered the representatives of the

study population. The value of Cronbach's alpha was found 0.852, which suggested a highly acceptable level of reliability of the questionnaire.

### **3.6 Data source and Types**

The study used both primary and secondary data. This enables the researcher to gather quantitative data. Primary data will be collected through questionnaire Guna Trading House Plc. employees who have work experience at least one year.

The secondary data was collected from various books, documents, Journals, Articles and internet sources related to PC and JS.

### **3.7 Data collection procedures**

The main means of collecting primary data will be questionnaires which were administered to the respondents. The questionnaire is structured to include closed ended questions. The information gathered includes the factors that affect PC and levels of job satisfaction information and the effects of PC on JS.

The questionnaires will be distributed to the participants and collected by the researcher in order to increase the response rate.

### **3.8 Ethical Consideration**

This study will use proper citation of the copy right holders. Any confidential information of the Guna Trading House Plc. or the employees will not be disclosed since the main intention is to gather data for research purpose. This study will be conducted on the consent of the Guna Trading House Plc. and with the arrangement of Addis Ababa University, School of Commerce with authorized legal letter to the researcher.

calculated and inferential statistics such as correlation and regression of psychological contract and job satisfaction will be calculated through SPSS version 23.

## CHAPTER FOUR

### DATA ANALYSIS AND DISCUSSION

#### 4. Introduction

This chapter presents the data analyses of the administered questionnaires and the presentation of the analyses and the fall out of the results as well as discussions for the study. The research deals with studying the effect of psychological contract on job satisfaction. Descriptive statistics such as frequency and mean, standard deviation and inferential statistics such as correlation analysis were used in the analyses.

#### 4.1 response rate

In this study, 224 questionnaires were distributed and collected out of which 213(95%) were usable. Therefore the response rate is significantly high.

#### 4.2 Reliability test

The **Reliability Statistics** table that provides the actual value for **Cronbach's alpha** is shown below:

**Table 4.2.1 Reliability Case Processing Summary**

		N	%
Cases	Valid	213	100.0
	Excluded <sup>a</sup>	0	.0
	Total	213	100.0

a. List wise deletion based on all variables in the procedure.

**Table 4.2.2 Reliability Statistics**

Cronbach's Alpha	N of Items
.892	24

As shown in table 4.2.2, it can be seen that Cronbach's alpha is 0.892 which depicts high level of internal consistency.

### 4.3 Profile of respondents

**Table 4.3.1 Age of respondents**

Age	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 20-30	104	48.8	48.8	48.8
31-40	68	31.9	31.9	80.8
41-50	35	16.4	16.4	97.2
51--60	6	2.8	2.8	100.0
Total	213	100.0	100.0	

As shown Table 4.3.1 significant majority (80.8%) of the respondents were between 20 - 40 and only 19.2 % were of Age greater than 40 which indicates the company has good balance of human resource.

**Table 4.3.2 Gender of respondents**

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Valid male	142	66.7	66.7	66.7
female	71	33.3	33.3	100.0
Total	213	100.0	100.0	

Table 4.3.2 indicates the gender composition of the respondents. As shown in the table the majority (66.7%) were males and only 33.3% females. This shows gender imbalance.

**Table 4.3.3 Marital status of respondents**

Marital status	Frequency	Percent	Valid Percent	Cumulative Percent
Valid single	106	49.8	49.8	49.8
married	102	47.9	47.9	97.7
divorced	5	2.3	2.3	100.0
Total	213	100.0	100.0	

As shown in table 4.3.3 the marital status of the respondents were 49.8% single and 47.9% married. This depicts there is no significant difference in marital status proportion. The number divorced once is insignificant (2.3%)

**Table 4.3.4 Monthly income of respondents**

Monthly Income	Frequency	Percent	Valid Percent	Cumulative Percent
Valid below than birr 2000	13	6.1	6.1	6.1
birr 2001- birr 3000	6	2.8	2.8	8.9
birr 3001-birr4000	30	14.1	14.1	23.0
birr4001- birr 5000	20	9.4	9.4	32.4
birr 5001-birr 6000	39	18.3	18.3	50.7
more than birr 6000	105	49.3	49.3	100.0
Total	213	100.0	100.0	

Table 4.3.4 shows the monthly income of the respondents. As indicated in the table while 49.3% earn more than birr 6000 and the rest 50.7% of the respondents earn between birr 2000-5000. Given the purchasing power of birr it may not be attractive pay.

**Table 4.3.5 length of service (at this organization) of respondents**

Length of service	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 2-5 years	142	66.7	66.7	66.7
6-10 years	44	20.7	20.7	87.3
11-15 years	4	1.9	1.9	89.2
16- 20 years	21	9.9	9.9	99.1
>21 years	2	.9	.9	100.0
Total	213	100.0	100.0	

As shown in table 4.3.5 majority of the respondents 142 (66.7%) have only 2-5 years of service and those whose served the company more than 21 years are only 2(.9%). This indicates the turnover in the company is low.

**Table 4.3.6 Education level**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid diploma	76	35.7	35.7	35.7
bachelor degree	112	52.6	52.6	88.3
masters degree	14	6.6	6.6	94.8
5.00	8	3.8	3.8	98.6
6.00	3	1.4	1.4	100.0
Total	213	100.0	100.0	

As shown in the table the majority 59% educational level of the employee in Guna TRADING HOUSE PLC is bachelor degree and above and 95% in diploma level this indicates that the PLC man pour is having good standing educational level

**Table 4.4 Factors that affect Psychological contract**

	N	Minimu m	Maximu m	Mean	Std. Deviation
work atmosphere	213	1.00	5.00	3.6244	1.21304
stimulating job	213	1.00	5.00	3.5023	1.18012
autonomy	213	1.00	5.00	3.4507	1.28990
intra-organization mobility	213	1.00	5.00	3.4225	1.09020
fair evaluation	213	1.00	5.00	3.3239	1.10455
job security	213	1.00	5.00	3.3192	1.34636
task description/job content	213	1.00	5.00	3.3052	1.19188
work- life balance	213	1.00	5.00	3.1455	1.03361
career development	213	1.00	5.00	2.9671	1.17113
financial rewards /payment	213	1.00	5.00	2.9343	1.21911
Valid N (list wise)	213				

Table 4.4 indicates the factors that affect psychological contract in the company in descending order. As it can be seen in the table three variables, work atmosphere, stimulating job, and autonomy with average rate of 3.45 and above out of five point scale followed by intra-organization mobility, fair evaluation, job security and task description with an average between 3.42-3.30 in descending order. Surprising enough career development and financial rewards/payment are rated low between 2.96 - 2.93. This implies work atmosphere, stimulating job and work autonomy are the most important factors that affect psychological contract.

**Table 4.5 level of Psychological contract**

Factors	N	Minimum	Maximum	Mean	Std. Deviation
I do feel a strong sense of belonging to this organization	213	2.00	5.00	4.5258	.72394
this organization has a sentimental value to me	213	2.00	5.00	4.4507	.74837
I do feel like part of family of this organization	213	2.00	5.00	4.3427	.85776
I do feel 'emotionally attached ' to the organization	213	1.00	5.00	4.2066	1.03457
I really feel as if this organization's problems are my own	213	1.00	5.00	4.1221	1.10919
I enjoy discussing my organization with people outside	213	1.00	5.00	3.7183	1.24593
I would be happy to spend the rest of my career with this organization	213	1.00	5.00	3.2676	1.05898
Valid N (list wise)	213				

As depicted in Table 4.5 the level of psychological contact is rated greater or equal to 65.35%.

This implies the level of psychological contract is moderate. The lesser the psychological contract the less commitment and motivation.

**Table 4.6 level of Job satisfaction**

	N	Minimum	Maximum	Mean	Std. Deviation
All in all , I am satisfied with the members in my work group	213	1.00	5.00	3.6667	.95496
All in all i am satisfied with my job now	213	1.00	5.00	3.6667	1.01715
All in all ,i am satisfied with this organization compared to other company	213	1.00	5.00	3.6526	1.02398
All in all ,I am satisfied with immediate supervisor	213	1.00	5.00	3.5164	1.01682
i never thought to leaving this organization even the condition of this company is not stable for this moment	213	1.00	5.00	3.4883	1.21551
most people in this organization are satisfied with the job that done now considering my skills and level of education that i have ,I am satisfied with my pay and benefit that i get in this organization	213	1.00	5.00	3.3897	.95329
Valid N (list wise)	213			3.1972	1.07659

Table 4.6 indicates the level of job satisfaction. As it can be referred from the table the level of job satisfaction is greater than 63.94%. This is more or less related to the level of psychological. However, the in both cases (level of psychological contract and job satisfaction) is not high.

## 4.7 Correlation analysis

**Table 4.7.1 Effect of Psychological Contract on Job Satisfaction**

Variable	Impact of Psychological Contract on Job Satisfaction
R Square	0.734
Adjusted R Square	0.729
F	132.57
Significance	0.000
B- Constant	0.308
Standardize Beta	0.857

Source: Survey Data

According to table 4.4.1, R square which is the explained variance is 0.734 at a significant level of 0.0. This suggests that the influence of psychological contract on job satisfaction is significant. This result means that 73% variance (R square) in job satisfaction is explained by the independent variable psychological contract. Variable Impact of Psychological Contract on Job Satisfaction R Square 0.734 Adjusted R Square 0.729 F 132.57 Significance 0.000 B- Constant 0.308 Standardize Beta 0.857.

Table 4.4.2 Correlation Analysis Using the Pearson Correlation with two-tailed test of significance, the Correlation analysis was made to investigate the associations between psychological contract and employee job satisfaction.

**Table 4.7.2 Correlations among Variables**

	Psychological Contract	Job Satisfaction
Psychological Contract	1	.857**
Job Satisfaction	.857**	1

Source: Survey Data

Notes:

\*\* Correlation is significant at the 0.05 level (2-tailed)

As it can be in table noted that psychological contract is positively and strongly correlated ( $r = .857$ ,  $p < 0.05$ ) with job satisfaction.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5. Introduction**

This chapter summarizes the findings and makes conclusions on this study which is the effect of psychological contract on job satisfaction in Gunna Trading House Plc. It also includes the study recommendations for improvement and for further research.

#### **5.1 Summary Findings**

The psychological contract refers to an individual employee's belief in mutual obligations between them and their employer. Psychological contracts are a key management concern, as they can impact employees' attitudes and behaviors in ways that influence organizational efficiency and effectiveness.

- The study found that majority (80.8%) of employees in Gunna Trading House Plc is below 40 years, an indication of a youthful work force which is ambitious. It also reveals that majority of the employees in Gunna Trading House Plc are men and therefore the equal employment opportunity policies should be enhanced. The level of education is important in a person's ability to perceive aspects of psychological contract and job satisfaction. The study shows that significant number of employees (59 %) educational level is above Bachelor degree educational and the vast majority(94%) are above diploma level in Gunna Trading House Plc. therefore understood the issue being researched on.
- The study indicated that the most determinant factors that affect psychological contract rated more than 69% include work atmosphere, stimulating job and autonomy.
- The level of psychological contract at the Plc is more than 65.35%.
- The level of job satisfaction is 63.94%.
- As indicated in Table 4.5 R square which is the explained variance is 0.734 at a significant level of 0.0. This suggests that the influence of psychological contract on job satisfaction is significant.

## 5.2 Conclusion

Psychological contract refers to the unspoken agreement between an employer and an employee that communicates their expectations from each other. There are no written promises between the two parties.

Job satisfaction is the level of contentment an employee has for his job. When the expectations of an employee from employer and organization get fulfilled, the employee feels a part of the organization and more satisfied.

By this research it was found that psychological contract of an employee with his/her employer does affect the job satisfaction level of the employee. The stronger the contract between the employee and the employer more satisfied the employee feels in the organization. Psychological contracts serve an important purpose when honored by both parties:

When both parties honor the psychological contract, a bond of loyalty is formed between the two. When the employee shows that he is willing to put in as much work as he implied and the boss' expectations prove fair, both parties will go out of their way to maintain this positive relationship.

The ability to perceive one another as human beings and being empathetic can make a big difference. A productive psychological contract depends on the employer's ability to occasionally let an employee's shortcomings slide, which will then result in the employee returning the favor.

When trust has been established through the psychological contract, it makes it easier for both parties to exhibit openness and honesty. When neither the employee nor the boss fear the possibility of betrayal, it is easier for each to open up about personal needs, frustrations or experiences. This allows each to respond in a healthy, productive manner.

When the terms of the psychological contract are honored, all aspects of the working relationship should run more smoothly. This greater degree of trust, respect and understanding can lead to a positive, healthy relationship, a workplace that is run in a more efficient manner and a greater degree of job satisfaction by both parties. Greater

enthusiasm for the job and higher morale go hand in hand, and may feed positively into all other areas of the job.

### **5.3 Recommendations**

The results of this study have practical implication for managers and employees, findings suggest that managers should focus on employee's satisfaction, and it would be possible if employees feel emotional attachment with the organization. Further, managers and employees should build and fulfill a psychological contract that leads toward affective commitment which increase employees satisfaction and reduce intention to quit. This study then recommends the managers to Endeavour to fulfill employees' promises and obligations (psychological contract); this will go a long way in creating a motivated and satisfied employees.

This study can be used and further extended to more number of participants of different sectors for further study.

There is a need for the Plc to build a stronger psychological contract with its employees by showing empathy and understanding the expectations of the employees from them.

The Plc should focus on building trust in the manager-employee relationship. There should be open communication and transparency in the organization.

There should be Proper feedback and recognition to the employee keeps the employee satisfied. Employee satisfaction survey need be carried out to ensure the level of job satisfaction of employees once a year.

Management should use a participative problem solving approach to increase employees feel of recognition.

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## ANNEX

### Questionnaire

**Dear Madam/Sir,**

This questionnaire is designed to collect information for a study which is conducted in order to enable the researcher to assess the effects of Psychological Contract on Employee job Satisfaction at Gunna S.C. The study is part of the researcher's academic work for the accomplishment of the Masters of Human Resource Management degree at Addis Ababa University School of Commerce. The findings of the study will be strictly utilized for the intended purpose. Therefore, you are requested to respond to all of the given questions. Please feel free to give out information and express your opinion, which will be received and treated with all due respect and confidentiality.

I appreciate your cooperation

**INSTRUCTIONS:** Kindly answer all the questions. The accuracy of your answer depends on your being straight forward in answering this questionnaire. You will not be identified by your answer.

#### Part 1: Respondents Profile

**1. Gender:**

Male     Female

**2. Age**

20 – 30 year old     51 – 60 year old

31 – 40 year old     61 year old and above

41 – 50 year old

**3. Marital Status:**

Single  Divorced

Married

**4. Educational Level:**

Diploma  Bachelor Degree  Masters Degree  PhD

Other, please specify \_\_\_\_\_

**5. Monthly Income:**

Below than Birr 2000

Birr 4001 – Birr 5000

Birr 2001 – Birr 3000

Birr 5001 – Birr 6000

Birr 3001 – Birr 4000

More than Birr 6000

**6. Length of Service (at this organization)**

2-5 years  6-10 years  11-15 years  16- 20 years  >21 years

**Part 2: Factors that affect Psychological Contract**

Please rate as to which of the following determines your relationship with your organization using this scale: 1= not at all 2= to a little extent 3= to some extent 4= to a great extent 5= to a very great extent

No.		Please Tick ( / )				
1.	Job security	1	2	3	4	5
2.	Career development	1	2	3	4	5
3.	Work- life balance	1	2	3	4	5
4.	Intra-organizational mobility	1	2	3	4	5
5.	Task description/job content	1	2	3	4	5
6.	Financial rewards/payment	1	2	3	4	5
7.	Autonomy	1	2	3	4	5

8.	Stimulating job	1	2	3	4	5
9.	Work atmosphere	1	2	3	4	5
10.	Fair Evaluation	1	2	3	4	5

### Part 3: Psychological Contract

Please answer the following using this scale: 1= not at all 2= to a little extent  
3= to some extent 4= to a great extent 5= to a very great extent

No.		Please Tick (/)				
11.	I would be happy to spend the rest of my career with this organization.	1	2	3	4	5
12.	I enjoy discussing my organization with people outside it.	1	2	3	4	5
13.	I really feel as if this organization's problems are my own.	1	2	3	4	5
14.	I do feel like 'part of family' of this organization.	1	2	3	4	5
15.	I do feel 'emotionally attached' to this organization.	1	2	3	4	5
16.	This organization has a 'sentimental value' to me.	1	2	3	4	5
17.	I do feel a strong sense of belonging to this organization.	1	2	3	4	5

#### Part 4: Job Satisfaction

Please indicate the extent to which your job allows you to experience the following: Use the following scale: - 1= not at all 2= to a less extent 3= to a moderate extent 4= to a great extent

5 = to a very great extent

No.		Please Tick (/)				
18.	All in all, I am satisfied with the members in my work group.	1	2	3	4	5
19.	All in all, I am satisfied with my immediate supervisor.	1	2	3	4	5
20.	All in all, I am satisfied with my job now.	1	2	3	4	5
21.	All in all, I am satisfied with this organization, compared to other company	1	2	3	4	5
22.	Considering my skills and level of education that I have, I am satisfied with my pay and benefit that I get in this organization.	1	2	3	4	5
23.	Most people in this organization are satisfied with the job that done now	1	2	3	4	5
24.	I never thought to leaving this organization even the condition of this company is not stable for this moment	1	2	3	4	5

Thank You!