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Min Soo Kim <sup>a</sup>; Jin Nam Choi <sup>b</sup>

<sup>a</sup> School of Business, Hanyang University, Seoul, South Korea <sup>b</sup> College of Business Administration, Seoul National University, Seoul, South Korea

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## **Layoff victim's employment relationship with a new employer in Korea: effects of unmet tenure expectations on trust and psychological contract**

Min Soo Kim<sup>a\*</sup> and Jin Nam Choi<sup>b</sup>

<sup>a</sup>*School of Business, Hanyang University, Seoul, South Korea;* <sup>b</sup>*College of Business Administration, Seoul National University, Seoul, South Korea*

Existing studies of psychological contract have largely focused on the effects of contract breach on employees' attitudes and the contract itself involving the same employer. Given that both workforce mobility and downsizing activities are increasing, it is important to understand how individuals' past employment experiences shape their relationships with their employers. The present study focuses on the effect of prior layoffs on relationships with new employers. We posit that furloughed workers experience layoff as a breach of the psychological contract of job security they have entered into with their employer. Longitudinal data collected from individuals who were re-employed following a layoff revealed that unmet tenure expectations in an employment relationship result in reduced trust in a new employer, which in turn negatively impacts the quality of psychological contracts with the new employer. The results also show that the relationship between unmet tenure expectations and trust was moderated by individual attributions regarding the cause of the layoff. The present findings suggest that the negative impact of contract breach experienced with one organization may carry over to subsequent organizational contexts.

**Keywords:** attribution; employment relationship; layoff victim; psychological contract breach; trust; unmet tenure expectations

Psychological contracts are individually held beliefs about the mutual obligations of employers and employees (Rousseau 1989). These implicit agreements outline a set of perceived obligations for both parties. Psychological contracts play a critical role in shaping employee behavior in organizations because they influence employees' attitudes toward the organization (e.g., commitment, trust, loyalty) as well as their efforts toward accomplishing organizational goals (Turnley and Feldman 2000; Kickul and Lester 2001; Coyle-Shapiro 2002). Recent research has attended to the issue of breach of psychological contracts<sup>1</sup> and the resulting consequences on employee attitudes and behavior. A greater understanding of psychological contracts can be obtained through the examination of the effects of the breach of those contracts (Rousseau 1995). Research has shown that breaches of psychological contract lead to negative outcomes such as increased turnover intention and decreased organizational commitment (Guzzo, Conway, Briner and Dickman 1994).

Guzzo et al. (1994) described 'triggers' such as layoffs that can lead to perceived breaches of psychological contract. Specifically, employees who have been laid off often regard the event as a serious breach of their contract with their employer, which triggers a re-evaluation of the obligations that constitute the contract, ultimately resulting in a change in

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\*Corresponding author. Email: kimmin@hanyang.ac.kr

the focus and scope of those obligations. Much has been written in the downsizing literature about the 'survivor syndrome' and the effects of layoffs on survivors (Brockner, Grover, and Blander 1988; Brockner 1992; Brockner, Tyler, and Cooper-Schneider 1992; Bies, Martin, and Brockner 1993; Mishra and Spreitzer 1998). Similarly, studies that investigate the effects of downsizing on psychological contracts have largely focused on survivors of downsizing (Rousseau and Aquino 1993; Edwards, Rust, McKinley and Moon 2003).

But what of the individuals who have lost their jobs? They do not, of course, simply disappear. They remain in the workforce, and most find a new job with another organization. As shown by Pugh, Skarlicki and Passell (2003), it is reasonable to assume that individuals' attitudes and behavior in their new jobs will be partially shaped by their past employment experiences. Unfortunately, few studies have investigated how individuals who have experienced breaches of psychological contract with an employer develop their relationships with new employers (for exceptions, see Kim 2003; Pugh et al. 2003).

To address this gap in the literature, this study examines the question of how individuals' negative employment experiences caused by contract breaches predict subsequent employment relationships in terms of trust and psychological contracts. Although empirical studies have investigated the effects of contract breach on employee attitudes (e.g., commitment, trust) toward the current employer (Rousseau 1990; Robinson, Kraatz and Rousseau 1994; Robinson 1996), the literature remains unclear about the impact of a negative experience with one employer on the employee's relationship with the subsequent employer. In the present study, we focus on psychological contract breaches caused by downsizing, which result in involuntary job loss for employees and the perception that the employer has failed to fulfill one of its key obligations (i.e., provide job security). However, not every involuntary job loss may generate a perception of contract breach. In this paper, we propose that the gap between expected and actual tenure with a particular employer, particularly when the expected tenure is greater than the actual tenure, is a critical condition for the creation of a perception of contract breach. Furthermore, this perception of contract breach has negative implications for future employment relationships in terms of both trust and the development of new psychological contracts. Drawing on previous studies (Kim 2003; Pugh et al. 2003), we further expect that the effect of a negative past employment experience on the relationship with a new employer will be moderated by the reasons to which individuals attribute their layoff (either internal or external).

Below we begin with a brief review of the psychological contract and its breach in the context of downsizing. We then develop hypotheses that link individuals' prior experiences of psychological contract breach to their job-related attitudes toward a new employer. These hypotheses are empirically tested by a longitudinal data set collected from a sample of Korean employees who found new employment following a layoff experience.

### **Downsizing and psychological contract breach**

Because a layoff may be regarded as a contract breach or unfulfilled expectation of job security, prior layoff experiences can affect the individual's relationship with a new employer. An individual's mental model of the psychological contract may change as individuals experience contract breaches, because they cannot be satisfactorily integrated by their existing schema (O'Connor and Wolfe 1991).

As Rousseau (2001) suggested, psychological contract is likely to be formed based on the mental models or schemas people hold regarding employment. Specifically, the pre-employment schemas provide 'a lens through which workers view employment experiences and the obligations these create' (Rousseau 2001, p. 515). People may have

different schemas regarding their employment, as research on the schemas of experts and novices suggests that new hires with substantial prior experience may hold different schemas about employment than their less experienced counterparts and are likely to react to new information differently (Welch Larson 1994). Researches on schema change also suggest that the information that differs from a person's existing beliefs can promote schema change (Rumelhart and Norman 1978). Layoffs produce clear information that victims could not ignore to lead to schema change. Thus, victims are more likely to apply the changed schemas to formation of employment relationships with their new employers.

### ***Decreased trust: a consequence of psychological contract breach***

Layoffs are often a traumatic experience for those involved and may result in a number of different psychological responses. For example, loyalty toward the company and perceptions of job security often diminish for the survivors (Cameron, Freeman and Mishra 1993; Mishra and Spreitzer 1998; Pugh et al. 2003), and organizational commitment decreases as both victims and survivors feel a sense of betrayal and mistrust (Brockner et al. 1992). A basic premise underlying psychological contracts is trust and the belief that organizations will reciprocate employees' contributions (Robinson et al. 1994; Robinson 1996). Confirming this premise, Robinson and Rousseau (1994) found a significant negative relationship between contract breach and trust.

Drawing on these findings, we expect that when a previous employer has clearly failed to fulfill its obligation by prematurely terminating the employment relationship, it may be difficult for displaced employees to develop trust with another employer. Singh (1998) found that layoff victims show less trust in people in general, perhaps because they are in a situation analogous to being 'dumped' by a boyfriend or girlfriend (Burack and Singh 1995; Singh 1998). In each situation, the resulting effect may extend beyond the original relationship to affect future relationships and behaviors. Thus, it would be reasonable to expect the victim in each scenario to be more cautious and less likely to become committed to a future relationship. Because layoff victims have experienced the trauma of being let go in the past, they may lack trust in other employers in general and will be less likely to fully commit to their new employers.

In this study, we presume that individuals feel psychological contract breach when they have to leave the organization before they expect, perceiving that the employer failed to fulfill its obligation of providing job security in return for their contributions. In other words, when their actual tenure is less than their expected tenure with the organization (e.g., 'I thought that I would be with this company for 10 years, but I was laid off after only 5 years'), employees may perceive a breach of a psychological contract in terms of job security. Although employees' perceptions of psychological contract breach can be affected by many other factors (e.g., procedural fairness, causal attribution of responsibility, etc.) (Morrison and Robinson 1997; Robinson and Morrison 2000), this cognitive comparison between expected and actual tenure may be a principal source of perception of contract breach.

Given that promised job security (expected tenure) as perceived by employees comprises a meaningful part of employer obligations, failure in delivering this promise on the side of the organization (actual tenure lower than expected tenure) may engender negative consequences for employees. Recent studies of psychological contract have demonstrated that mutuality or agreement between employee expectations and employer perceptions of employer obligations (e.g., job security, career development) is critical for employee outcomes such as intent to leave and performance (Tekleab and Taylor 2003; Dabos and Rousseau 2004).

Unlike these studies, we attend to agreement or reciprocity between employee expectation and the employer's action. Specifically, we predict that individuals' trust in a new employer will be greater when their prior employer provided a level of job security (as represented by actual tenure) that was compatible with their expectations. We also hypothesize that job security beyond expectations (actual tenure greater than expected tenure) provided by the previous employer might result in greater trust in the previous employer, which would then be generalized to subsequent employers. Prior experience of a lengthy relationship with an employer might be a source of positive regards toward another employer. Therefore, we expect a linear contribution of actual tenure beyond the level of expected tenure to one's trust in future employers (monotonic fit model, see Edwards 1996, p. 295):

*Hypothesis 1:* Employees' trust in their current employer will increase as their actual tenure with the previous employer approaches the level of the expected tenure, and continues to increase as actual tenure exceeds the level of expected tenure.

### *Causal attribution of responsibility*

Rousseau (1995) states that the manner in which people interpret the circumstances of a failure to comply with the terms of a contract determines whether they experience negative emotions and show negative responses. A breach of contract occurs when one party reneges on the agreement despite the ability to fulfill it. Morrison and Robinson (1997) noted that 'as part of the interpretation process, the employee assesses not only the outcome itself, but also why the situation occurred' (Robinson and Morrison 2000, p. 532). When faced with an unfavorable or unexpected outcome, people tend to search for explanations that will enable them to determine the reasons for that outcome (Wong and Weiner 1981). These attributions have a strong effect on the intensity of emotions that the person experiences (Ortony, Clore and Collins 1988). In the case of a layoff, employees will show more intense negative reactions if they attribute it to 'reneging' rather than to 'incongruence (misunderstanding)' (Morrison and Robinson 1997). Whereas the former attribution will cause the employee to blame the organization, the latter will mitigate blame and thereby weaken the negative effects of the layoff.

If the circumstances of a layoff are perceived to be under the control of the employer, victims are more likely to show negative reactions to the layoff. Economic downturns may cause layoffs, but victims may still blame poor management practices. Therefore, attributions regarding the intentions of the employer (external attribution) are fundamental to the negative reaction to a layoff. When employees feel that their layoff is due to intentional breach of contract by the employer, they tend to develop mistrust in employers in general (Pugh et al. 2003). On the other hand, when employees feel a personal responsibility for layoff such as low performance or lack of skills (internal attribution), their reaction to layoff may be less negative and they will not develop generalized mistrust of employers (Weiner 1985). Overall, layoff victims who blame their employers for a layoff are more likely to experience negative effects in terms of building trusting relationships with another employer than those who attribute the cause of the layoff to themselves.

*Hypothesis 2:* The negative relationship between a psychological contract breach (operationalized as a gap between expected and actual tenure with the previous employer) and employees' trust in the current employer will be moderated by the attribution of the cause of the layoff; as individuals

attribute the cause to the previous employer (external attribution), the relationship becomes stronger; however, as individuals attribute the cause to themselves (internal attribution) it becomes weaker.

### **Psychological contract with new employers**

Research has shown that perceptions of employer and employee obligations change over time (Robinson et al. 1994; Rousseau and McLean Parks 1993). A longitudinal investigation demonstrated that employees decrease their inputs at work following contract breach (Robinson et al. 1994). In this study, MBAs reported that their obligations to their employers declined over a period of 2 years, during which a majority of them experienced certain levels of contract breach. This change may be an attempt to redress a perceived imbalance subsequent to some form of contract breach. If furloughed employees perceive their layoff as a contract breach, they will experience distress caused by the unbalance between employee and employer obligations. The greater the level of this distress, the more the psychological contract in the victim's next employment relationship may be affected.

People who have lost their jobs often express concern about how much they have given up for an organization (Rousseau 1995) and begin to question whether they want to sacrifice that much again for another organization in the future. Empirical studies have shown that employees who experience a psychological contract breach tend to reduce their felt obligation and actual contribution to the organization (e.g., Robinson and Rousseau 1994; Robinson and Morrison 1995). Based on these findings, we hypothesize that those who experience layoffs feel less obligation in their relationships with subsequent employers. In addition, contract breaches have also been found to decrease the obligations that employees expect from the employer (Robinson et al. 1994). This decline in expectations is presumably due to the negative experience associated with contract breach, which could effectively reduce employee aspirations in regard to subsequent employers. Thus, we hypothesize the following relationship:

*Hypothesis 3:* A psychological contract breach by an employer (operationalized as a gap between expected and actual tenure) will be negatively related to perceptions of employer and employee obligations involving the subsequent employer.

Finally, as we have mentioned above, trust is the basis of psychological contracts, and employer and employee obligations will be a direct result of the level of trust that an employee holds with regard to the new employer. We therefore hypothesize that unfavorable experiences such as contract breach by previous employer may engender distrust of new employers among the layoff victims, which in turn reduces their felt obligations toward and expectations of this new employer (i.e., employer obligation).

*Hypothesis 4:* The relationship between the psychological contract breach by an employer (operationalized as a gap between expected and actual tenure) and employer and employee obligations involving a subsequent employer will be mediated by trust in the new employer.

### **Method**

#### ***Identifying content domains of psychological contracts in Korea***

Although there are validated measures of psychological contracts in terms of employee and employer obligations, it is possible that people in different cultures have different



ideas about employee and employer obligations in the context of employment contracts (Rousseau and Schalk 2000). Taking this possibility into account, the first author conducted 32 semi-structured interviews with participants of a vocational training program offered by the Korean Labor Department. All participants had been laid-off and were searching for a new job. Eleven of the participants (34.4%) were female. The average age of the sample was 44.9 (SD = 4.4). Participants in the sample had been employed by their former organizations for an average of 4.7 years (SD = 1.5). The average unemployment period in this sample was 14.7 months (SD = 7.0).

Interviewees were allowed to respond freely to two questions: (a) 'what were the obligations or promises the former employer offered to you?' or in general, 'what do you think the employer's obligations to employees are when it hires them?' and (b) 'what obligations did you have to fulfill for your former employer?' or in general, 'what do you think employees' obligations to the employer are when they are hired?' Responses to these two questions generated by the 32 participants were analyzed to identify potentially unique content of psychological contracts in the Korean context. Eight content domains were identified for both employee and employer obligations (see Table 1). Although these 16 obligations that comprise psychological contracts were identified in the Korean context, they are comparable with those identified in the Western employment context (cf. Robinson et al. 1994). The 16 obligations were transformed into items and used in this study to measure participants' beliefs related to psychological contracts.

### *Data collection procedure and sample characteristics*

To test our present hypotheses, we collected longitudinal data in two waves from individuals who experienced layoff followed by re-employment. In the first wave (T1), conducted while the participants were unemployed, they reported their expected and actual tenure with the former employer. At T1, participants also rated items that were designed to measure internal and external attributions related to their layoff. In the second-wave (T2) questionnaire that was administered 4 months after T1 (at this point, all the participants were re-employed), we assessed the participants' trust in the new employer,

Table 1. Employer and employee obligations in psychological contracts of Korean employees.

	<i>Employer obligations</i>	<i>Employee obligations</i>
Transactional	<ol style="list-style-type: none"> <li>1. Salary similar if not better than market average</li> <li>2. Salary according to performance/ability</li> <li>3. Promotion according to performance/ability</li> <li>4. Various educational/training programs</li> </ol>	<ol style="list-style-type: none"> <li>1. Advance notice before taking a job elsewhere</li> <li>2. Protecting company secrets/information</li> <li>3. Not helping out company's competitors</li> <li>4. Working for the company for the minimum term</li> </ol>
Relational	<ol style="list-style-type: none"> <li>1. Job security</li> <li>2. Fair treatment/respect</li> <li>3. Fair evaluation not based on age, education, sex, or seniority</li> <li>4. Opportunity to express individual opinions/ideas</li> </ol>	<ol style="list-style-type: none"> <li>1. Loyalty to the company</li> <li>2. Appreciating company policies/procedures</li> <li>3. Participating in activities not directly related to your job and responsibility (i.e. irregular meetings, etc.)</li> <li>4. Obeying to your superior</li> </ol>

as well as employee and employer obligations (using the scales that were developed as described above).

The data were collected from laid-off employees who were listed in a local office of the Korean Labor Department and participants of vocational training programs offered by three institutions. The initial sample included 888 laid-off workers who completed the T1 survey. Four months later, 473 of the T1 participants could be contacted by phone and 259 participated in the T2 survey (response rate = 54.8%). To test the current hypotheses, however, we needed individuals who were unemployed at T1 but were re-employed at T2. With this screening criterion applied, the final sample size for analysis was 172. This final sample included 63 females (36.6%), and the average age of the sample was 34.19 (SD = 9.12). Average tenure with the previous job was 4.43 years (SD = 5.99), with an average duration of unemployment of 15.10 months (SD = 15.64). The participants in our final sample had worked in various industries including manufacturing (27.9%), construction (10.5%), and service (9.3%).

### Measures

*Expected and actual tenure (T1)* We measured expected tenure with the former organization using one question: Before you started your previous job with your former employer, how long did you expect you would be working for that organization? The response format for this question included a five-point scale (1 = 2 years or less; 2 = 2 to 5 years; 3 = 5 to 10 years; 4 = 10 to 20 years; 5 = 20 years or more). This five-point scale was developed based on the typical promotion scheme in Korean organizations, because tenure expectations within an organization tend to follow this promotion scheme. For example, it usually takes 5 years to be promoted to a managerial position in Korean organizations. Also at T1, participants reported their actual tenure with the former organization. For compatibility with the expected tenure measure, we measured years of actual tenure with the same five-point scale used for expected tenure.

*Tenure gap (T1)* Using the five-point scales of expected and actual tenure, we calculated tenure gap by subtracting actual tenure from expected tenure. In this formula, a positive value in tenure gap (expected tenure greater than actual tenure) indicates unfulfilled expectation of job security from the former employer. A greater score of tenure gap thus represents a more severe breach of psychological contract in terms of tenure.

*Internal and external attribution (T1)* Participants reported their judgment of the cause of their layoff experience at T1. To measure external attribution of the cause of layoff, we used a three-item scale ( $\alpha = .73$ ). Sample items include 'I was laid-off due to top management's mismanagement and their pursuit of personal profits' and 'I was laid-off due to the lack of competitive advantage of my former employer.' Participants' internal causal attribution was also measured by three items ( $\alpha = .72$ ) that evaluated attributions such as low performance, low commitment to work, and low skill and professionalism. The response format for these two scales was a seven-point scale (1 = completely disagree, 7 = completely agree). A factor analysis using principal-component analysis with varimax rotation of the six items measuring internal and external attribution revealed a clear two-factor solution, which accounted for 65.9% of the variance. The loadings for corresponding factors were greater than .75 with low cross-loadings, all less than .30.

*Trust in the current employer (T2)* Ouchi (1981) characterized trust in terms of expectations about consistent or reliable behavior (Mishra 1996). Gabarro (1987) also maintained that trust between an employer and employees is based on consistency of behavior. Drawing on this conceptualization of trust, we constructed a two-item measure



( $\alpha = .83$ ) of trust in the current employer that focuses on reliability and consistency of the employer's behavior and policy. The two items were 'This company has coherent and consistent policies and procedures' and 'This company is always trustworthy and dependable.' Each item was followed by a seven-point scale, ranging from completely disagree to completely agree.

*Employer and employee obligations (T2)* The 16 obligations, eight for the employer and eight for employees, that had been identified through interviews with 32 laid-off employees were transformed into questionnaire items and used to assess participants' psychological contracts with the current employer at T2. Participants were instructed to rate the extent to which they believed that they were obligated to fulfill the eight employee obligations ( $\alpha = .79$ ) for the current employer, and the extent to which they expected the current employer to fulfill the eight employer obligations ( $\alpha = .85$ ). A seven-point scale (1 = completely not obligated, 7 = completely obligated) was used for this measure. We examined the latent factor structure of these 16 items using a confirmatory factor analysis (CFA). We tested a second-order factor model, in which both employer and employee obligations were indicated by two subcomponents (transactional and relational obligations) that were in turn indicated by four items each. This model provided a very good fit to the data ( $\chi^2(99) = 158.69, p < .01$ ; CFI = .98; IFI = .98; RMSEA = .059).

## Results

Table 2 presents means and standard deviations of the study variables and correlations among them. We tested Hypotheses 1a and 1b through polynomial regression analysis for testing the effect of fit as suggested by Edwards (1996). Hypothesis 2 was tested by examining the significance of the interaction between tenure gap and causal attribution patterns in predicting trust in the current employer. Hypotheses 3 and 4 were collectively tested by creating a structural equation model that incorporates all hypothesized paths.

### *Effects of expected and actual tenure on trust in the current employer*

Hypothesis 1 proposes that when a person's tenure expectation was met with actual tenure with a previous employer, he/she is likely to develop a greater level of trust in a new employer. We further predict that, instead of a perfect fit effect (e.g., actual tenure greater than expected tenure having a negative, misfit effect) or an asymptotic fit effect (e.g., actual tenure greater than expected tenure having no additional positive effect), actual tenure beyond the level of expected tenure still has positive implications. To test this hypothesis, we conducted a polynomial regression analysis (Edwards 1996), in which linear and curvilinear effects of predictors are examined in a hierarchical manner. Polynomial regression analysis has been widely accepted as a statistical approach to test the joint effect of two measures, particularly in the context of person-environment fit research (e.g., employer and employee perceptions of psychological contract obligations, Dabos and Rousseau 2004). In the present study, we tested the following two regression equations in a hierarchical manner (ET = Expected Tenure, AT = Actual Tenure):

$$\text{Trust} = b_0 + b_1\text{ET} + b_2\text{AT}$$

$$\text{Trust} = b_0 + b_1\text{ET} + b_2\text{AT} + b_3\text{ET}^2 + b_4\text{ET}*\text{AT} + b_5\text{AT}^2$$

These two equations effectively separate the distinct contributions of each of the two measures comprising unmet tenure expectation (i.e., expected and actual tenure) that

Table 2. Descriptive statistics and correlations among variables.

Variables	M	SD	1	2	3	4	5	6	7
1. Expected Tenure	3.14	1.37							
2. Actual Tenure	3.93	1.33	.39**						
3. Tenure Gap	-.79	1.49	.57**	-.53**					
4. Internal Attribution	2.39	1.19	.11	.12	.01				
5. External Attribution	3.60	1.44	-.03	.05	-.06	.31**			
6. Trust in the Current Employer	3.80	1.20	-.14	.11	-.22*	-.05	-.11		
7. Employee Obligation	3.82	1.02	-.10	.09	-.17*	.10	.01	.58**	
8. Employee Obligation	5.15	.87	.01	.07	-.07	.03	.04	.20*	.26*

Notes: \* $p < .05$ ; \*\* $p < .01$ .

Table 3. Polynomial regression analysis of expected and actual tenure predicting trust in the current employer.

<i>Model</i>	<i>Linear</i>	<i>Curvilinear</i>
Expected Tenure (ET)	-.18*	-.17
Actual Tenure (AT)	.19*	.21*
ET <sup>2</sup>		-.06
ET * AT		.03
AT <sup>2</sup>		-.06
R <sup>2</sup>	.04*	.05
$\Delta R^2$		.01

Notes: Entries are standardized regression coefficients; \* $p < .05$ .

may differentially relate to trust in the current employer. Prior to conducting this analysis, we scale-centered expected and actual tenure by subtracting 3 (i.e., the midpoint of each scale), thereby reducing multicollinearity and allowing meaningful interpretations of coefficients on first-order terms (i.e., the slope at the scale midpoint) (Aiken and West 1991; Edwards 1996).

Table 3 shows the results of the polynomial regression analysis, in which trust in the current employer was predicted by the linear and curvilinear terms of the two tenure variables. Expected and actual tenure showed comparable effect sizes, but in opposite directions ( $\beta = -.18$ ,  $p < .05$  and  $\beta = .19$ ,  $p < .05$ , respectively). The regression coefficients for the two variables were not significantly different from each other (effect size difference test:  $F(1, 140) = .027$ ,  $p > .85$ ), indicating that both variables are meaningful predictors of the outcome. No curvilinear terms were significant. This pattern supports Hypothesis 1 that there is a monotonic fit relationship between expected and actual tenure, in which actual tenure contributes to trust in the current employer even beyond the level of expected tenure.<sup>2</sup> The results indicate that laid-off employees are more likely to develop trust toward a new employer when their tenure expectation was fulfilled by their previous employer and/or when they had a long-term employment relationship with the employer.

### ***Interaction between tenure gap and causal attribution***

In Hypothesis 2, we proposed that the negative relationship between tenure gap and employees' trust in the current employer would be moderated by the attribution of the cause of the layoff. Moderated regression analyses were conducted to test these hypotheses by adding interaction terms of tenure gap and attribution patterns. Hypothesis 2 would be supported if the added interaction terms significantly increased the explained variance in trust in the current employer (i.e., significant change in  $R^2$ ) and if the direction of interaction was consistent with the expected pattern. As shown in Table 4, the present data showed a significant interaction between tenure gap and internal attribution, but the result was not significant for external attribution. The interaction term of tenure gap and internal attribution explained a significant amount of variance of trust in the current employer ( $\Delta R^2 = .04$ ,  $p < .05$ ) above and beyond the main effects, and its regression coefficient was significant ( $\beta = -.42$ ,  $p < .05$ ).

To test if the pattern of this interaction was in the direction hypothesized, we conducted a follow-up analysis adopting the procedure suggested by Aiken and West (1991), in which separate regression analyses were conducted for two subgroups with strong (one *SD* above

Table 4. Interaction between tenure gap and attribution patterns predicting trust in the current employer.

Model	1	2	3	4
Tenure Gap	-.21*	.16	-.22*	-.15
Internal Attribution	-.01	-.09		
External Attribution			-.10	-.12
Tenure Gap X Internal Attribution		-.42*		
Tenure Gap X External Attribution				-.07
R <sup>2</sup>	.04*	.08*	.06*	.06*
ΔR <sup>2</sup>		.04*		.00

Note: \* $p < .05$ .

the mean) and weak (one *SD* below the mean) internal attribution. Figure 1 visually depicts the results of this analysis. Surprisingly, this diagram shows that the direction of interaction was the opposite of that we hypothesized. Contrary to expectations, the group of participants who strongly attributed the cause of their prior layoff to internal causes such as their performance level or task-related skills showed a strong negative relationship between tenure gap and trust in the current employer. In contrast, the group with low internal attribution showed almost a null relationship between tenure gap and trust in the current employer. This unexpected pattern will be discussed later.

**Effects of tenure gap on employer and employee obligations**

According to Hypotheses 3 and 4, the negative relationship between tenure gap and psychological contract with a new employer will be mediated by trust in the employer. An examination of the correlation matrix presented in Table 2 reveals that unmet tenure expectation was significantly correlated with employer obligations ( $r = .17, p < .05$ ) but not with employee obligations ( $r = .07, ns$ ). Although this pattern indicates that there is no

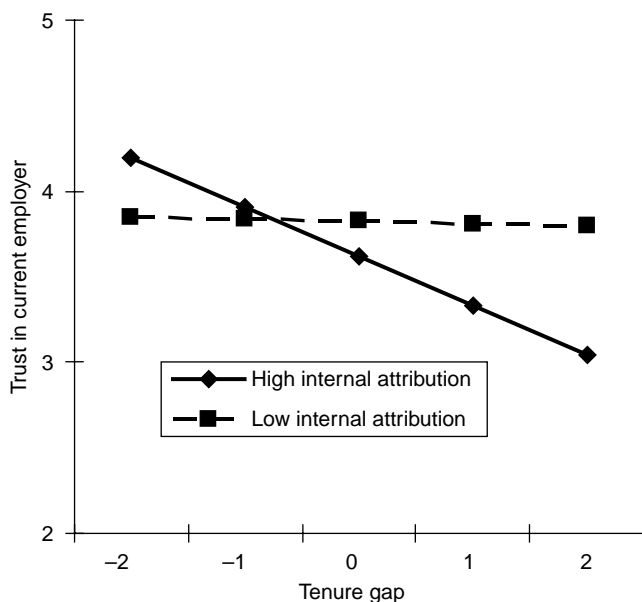


Figure 1. Interaction effect of tenure gap and internal attribution on trust in the current employer.

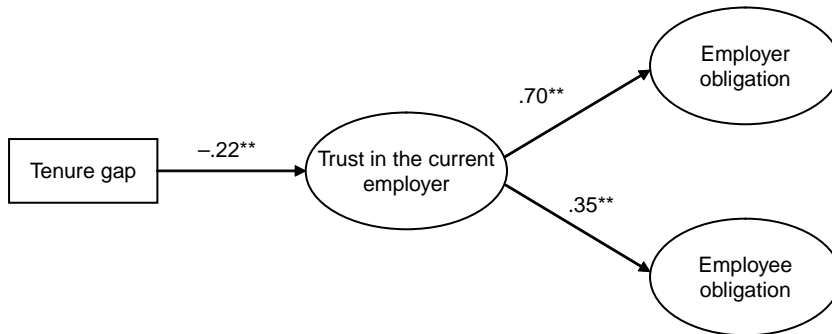


Figure 2. Mediation structural equation modeling analysis.  
Note: \*\* $p < .01$ .

significant direct link between unmet expectation and employee obligations, we included both types of obligations for the sake of completeness. We tested this mediation process by creating a structural equation model. Before we examined the structural relationships, we tested the measurement model, which included four latent factors (tenure gap, trust, employer and employee obligations) indicated by seven observed variables. For the two obligation factors, instead of using the 16 items as their indicators, we included four composite scores: transactional-employee, relational-employee, transactional-employer, and relational-employer obligation. This measurement model produced a good fit to the data ( $\chi^2(6) = 10.99, p > .05$ ; CFI = .99; IFI = .99; RMSEA = .029) and thus it was used to test the hypothesized structural relationships.

The structural model we tested is visually depicted in Figure 2. This model performed well against the observed data ( $\chi^2(11) = 15.40, p > .10$ ; CFI = .99; IFI = .99; RMSEA = .048). Although the proposed model fits the data well, the possibility still exists that tenure gap directly influences employee and employer obligations in addition to its indirect effect through trust in the current employer. We tested this alternative model by adding direct paths from tenure gap to the two psychological contract variables. This amended model also provided a good fit ( $\chi^2(9) = 15.05, p > .05$ ; CFI = .99; IFI = .99; RMSEA = .063). However, the chi-square difference of the two models was not statistically significant ( $\Delta\chi^2(\Delta df = 2) = .35, p > .80$ ), indicating that the two direct paths from tenure gap to employer and employee obligations did not significantly improve the model performance. Thus, the present data support our hypothesis that the link between tenure gap and psychological contracts with a new employer is mediated by trust toward the same employer.

## Discussion

This study investigated how layoff victims' prior experiences influence their development of employment relationships with a new employer. Compared with research on the survivors of layoffs (Brockner et al. 1992), layoff victims have been examined by few studies, perhaps because the data are relatively difficult to collect from such a sample. In this study, we proposed that furloughed workers who experienced a breach of psychological contract with the previous employer may have difficulty in building trust toward a new employer, which may in turn impede the development of new psychological contracts in terms of employee and employer obligations. We further argue that the effect of prior contract breaches on new employment relationships may vary depending on how

the layoff victims interpret the event through attribution of the cause to different sources, either the self or the company. Two-wave longitudinal data provided empirical support for the contention that psychological contract breach by the prior employer with respect to job security will result in less trust in a new employer, which in turn reduces expectations regarding the new employer. Some of the empirical patterns observed in this study merit further discussion.

Among the various forms of contract breach, layoff may have potent effects on the individuals involved, because for many of them it is an emotionally loaded and even traumatic experience. In the present study, we operationalized this broken psychological contract related to job security as the gap between expected and actual tenure. In a polychronic regression analysis using expected and actual tenure as separate predictors of trust in a new employer (see Table 3), the two variables showed approximately the same linear effects in opposite directions, with no curvilinear effects. This pattern suggests that instead of fit between expected and actual tenure, the longer the tenure with the previous employer, the easier it is for an employee to develop trust in a new employer. At the same time, when employees had a high tenure expectation with the previous employer, they were less likely to develop trust in a new employer, perhaps due to the unmet expectation.

The present study further demonstrates that unmet tenure expectation also shapes an employee's perceptions/expectations of a new employer's obligations. A structural model presented in Figure 2 showed that this link between unmet tenure expectation and employer obligations was mediated by trust in the new employer. This flow suggests that when a person experiences a breach in psychological contract with a previous employer, he/she tends to develop less trust in another employer, which lowers his/her perceptions of both employee and employer obligations. Interestingly, when we tested this mediational model using an interaction term between expected and actual tenure (using expected tenure, actual tenure, and their interaction as predictors of trust in the current employer), only actual tenure had a significant path to trust ( $\beta = .22, p < .01$ ). This result indicates that when we controlled for the interaction term, actual tenure might be a more important predictor than expected tenure in regard to developing employment relationships with another employer.

Equity theory suggests that inequity created by contract breach would cause distress for the affected individuals (Rousseau 1995). In a layoff situation, in which the relationship has already been terminated and the comparison group may have changed, equity can be restored through changing perceptions of obligations that comprise a new psychological contract with the next employer. The present data show that perceived contract breach in terms of job security has a negative effect on employee expectations of employer obligations in the subsequent job. This link between contract breach by the prior employer and employee perceptions of the obligations of the current employer was completely mediated by trust toward the new employer. Apparently, layoff victims could not trust their new employer enough to form proper expectations of employer obligations, fearing that they might be breached again. Once a relationship was damaged by perceptions of contract breach, the negative effect of such a perception seemed to carry over to the relationship with a new employer. In a sense, laid-off employees' distrust may be generalized from one organization to all organizations.

Attribution of the cause of the layoff is an essential element of the interpretation of the layoff situation (Rousseau 1995). Drawing on this argument, we expected that contract breach would be more strongly perceived when the cause of layoff is attributed to external rather than internal factors; thus, the negative effect of tenure gap was expected to be more pronounced in situations of high-external/low-internal attribution. The present interaction analysis shows that contract breach indicated by tenure gap interacted



significantly with internal attribution but not with external attribution. However, the direction of interaction between internal attribution and tenure gap on trust in the current employer was the opposite of our expectations: tenure gap was negatively related to trust for the high-internal-attribution group, but the relationship was almost neutral for the low-internal-attribution group. In other words, individuals tended to lower their trust in a new employer when they believed that *they* (not the previous employer) were responsible for the layoff.

This counter-intuitive pattern presents an intriguing dilemma. We speculate that there could be several possible explanations for this anomaly. The first possibility involves individual differences in explaining life events in general. If the high internal attribution is based on the person's general tendency to attribute an unfavorable event to one's own making, this pattern might indicate a lack of self-confidence or self-esteem in general, or even negative fatalism (e.g., 'Everything is my fault'). With this negative psychological outlook, people may become more vulnerable to negative events and thus more strongly influenced by past negative experiences. Under this situation, when people feel that they were laid-off because of their lack of skills or performance, they might tend to believe that the same thing will happen with a subsequent employer, which in turn may reduce their level of organizational commitment and/or trust. In a sense, individuals who tend to attribute negative consequences to themselves are more likely to fall into a negative spiral of self-esteem, considering the layoff experience as evidence that ends up reinforcing this negative spiral (Lindsley, Brass and Thomas 1995).

Another possible explanation for the unexpected direction of interaction is that the intensity of attribution (either internal or external) may indicate the amount of cognitive effort that individuals engage in to explain the negative event. When employees exert a high amount of effort to explain their layoff experience (resulting in high internal and/or external attribution), they might be more likely to be influenced by this experience than they would be in cases in which they do not care much about it (low internal and external attribution). The significant correlation between the two types of attribution ( $r = .31$ ,  $p < .01$ ) suggests a possibility that individuals who make one type of attribution tend to make the other type as well. It is possible that the total amount of cognitive effort (attention, information processing, attribution, etc.), rather than the direction of attribution, may determine the impact of prior experience on the development of new employment relationships. Yet another possibility is that external attribution and internal attribution involve independent cognitive processes and thus need to be explained separately, rather than considered as opposite processes. In any case, cognitive attribution in the context of layoff appears to stimulate more complicated dynamics than we expected. Further empirical examinations of this issue are clearly needed.

The current findings need to be interpreted with caution due to several limitations. The expected and actual tenure and attribution data collected at T1 were reported by the participants after they had been laid off. This retrospective nature of the T1 measures could bias participants' perception of their prior employment relationships and their causal attribution. Given that downsizing and subsequent job loss is a painful and highly emotional experience for many people, it is possible that the participants' memory was distorted in an effort to avoid thinking about or to mitigate the negative experience. Therefore, it could have been difficult for them to accurately recall the nature of their previous contracts. To measure layoff victims' previous contracts more accurately, a more rigorous longitudinal design for data collection would be required.

Traditionally, most research on job loss has taken re-employment as its end point. When layoff victims get a new job, they typically cease to be the focus of further research, and thus

little research addresses the quality of re-employment. Studies on the subsequent careers of layoff victims have reported substantial evidence of under-employment (Kaufman 1982; Newman 1988). However, the psychological effect of moving to a new job that is perceived as inferior in wages, benefits, and skill utilization after a layoff has received only anecdotal attention (Leana and Feldman 1995). Further investigation should examine the role of changes in the psychological contract involving the subsequent job after a layoff. Shore and Tetrick (1994) assert that the development of an employee's psychological contract is a result of the interaction between employees and their organizational environment. Therefore, it may be beneficial to explore the interaction of expectations regarding a future job with under-employment conditions actually experienced in that job. It would also be meaningful to conduct further empirical investigations of the employees' psychological adjustment as well as work performance in the new employment setting.

This study, with its longitudinal design, proved helpful in understanding the type and extent of changes that may occur in one's employment relationships in terms of trust and psychological contract with a new organization. Most of the research on psychological contract has dealt with employees' psychological expectations in regard to a single organization (Rousseau 1990; Robinson et al. 1994; Robinson and Rousseau 1994; Morrison and Robinson 1997; Robinson and Morrison 2000). As Wanous (1992) suggested, new employees' previous experiences can be an important factor that differentiates them and determines their adjustment in the organization. As boundaryless careers become a reality (Arthur and Rousseau 1996; Arthur, Inkson and Pringle 1999), it is important to understand how psychological contracts change as individuals move in and out of different types of companies, industries, and employment arrangements.

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### Notes

1. In order to figure out the process and the results of psychological contract violation, scholars have used several constructs, such as unmet expectations (Turnley and Feldman 2000; Sutton and Griffin 2004), broken promise (Ho, Weingart and Rousseau 2004), unmet promise and contract breach (Morrison and Robinson 1997; Chrobot-Mason 2003). Before violation is perceived, breach of contract should be perceived. The breach of contract means the discrepancy between an employee's understanding of what was promised and the employee's perception of what he/she has actually received and can be occurred if the employee perceives that he/she has made contributions as promised, yet those contributions have not been adequately reciprocated.
2. In the present study, Hypotheses 2, 3, and 4 suggest that the effect of fit or discrepancy between expected and actual tenure (i.e., unmet tenure expectation) is moderated or mediated by other variables. In testing these hypotheses, we adopted the gap or difference between expected tenure and actual tenure as an indicator of discrepancy between the two tenure measures for several reasons. First, in the present context, a difference score may provide 'a direct, easily understandable, and readily analyzable index' of fit or discrepancy effects (Colvin, Block and Funder 1996, p. 1253). Second, as reported above, expected and actual tenure had comparable contributions with the criterion (i.e., trust in the current employer) (effect size difference test:  $F(1, 140) = .027, p > .85$ ), which suggests that the effect of the difference score might not be driven by a single measure, either by expected tenure or actual tenure (thus eschewing the empirical critique regarding the use of difference scores, see Edwards 1996; Zuckerman, Gagne, Nafshi, Knee and Kieffer 2002). Third, the gap or difference between two measures has been consistently used in the fit literature as well as in the psychological contract literature (e.g., Dabos and Rousseau 2004). Finally, the present data provided more interpretable results when we used a difference score instead of alternative measures of discrepancy effects such as interaction. Therefore, we present the results of testing moderation and mediation involving the

gap between expected and actual tenure using a difference score. Nevertheless, we acknowledge that the effect of discrepancy between expected and actual tenure can be represented by alternative operationalizations such as an interaction between them (for a review, see Zuckerman et al. 2002). Interested readers may contact the authors for the results of the same set of analyses presented using the interaction term instead of a difference score between expected and actual tenure.

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