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This research investigated how much and in what direction newcomer psychological contracts changed during the first year of employment and the extent to which change was a function of a psychological contract breach. These issues were investigated using a sample of 88 organizational newcomers with diverse job duties/titles, prior experience, and age levels. Newcomers were surveyed at three points in time during the first year of employment, including employee perceptions of both employee and employer obligations. Consistent with equity theory, results revealed employees perceived more balanced than imbalanced employment relationships upon organizational entry as well as after 1 year of employment. A failure of the employer to fulfil commitments was associated with perceived imbalance in the employment relationship and a significant decrease in perceived employer obligations, suggesting breach is perceived as a trigger for an adjustment to the psychological contract rather than a signal of an injustice. Implications of these findings for research and theory on psychological contracts and breach in the employment relationship are discussed.

Practitioner points

- Newcomers' and employees with 1 year of organizational tenure are more likely to report a balance than an imbalance between employer and employee obligations, reflecting the mutuality of perceived obligations in employment relationships.
- When employees perceive their employer has failed to fulfil obligations, employees are likely to alter their subsequent perceptions of employer obligations downwardly.
- Based on the way employees adjusted their perceptions of obligations following a breach in their psychological contract, this study provides evidence for newcomers to perceive a breach as a trigger to adjust perceptions concerning employer obligations.

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Psychological contracts refer to the beliefs that individuals hold regarding the terms and conditions of their employment relationship, including not only what the organization owes them (e.g., salary, benefits, developmental opportunities), but also what they owe the organization (e.g., hard work, loyalty; Rousseau, 1989). Psychological contracts are important because whether they are fulfilled or breached, they influence a number of important organizational outcomes. When psychological contracts are breached (or under fulfilled), the breach leads to mistrust, dissatisfaction, and possible dissolution of the employment relationship itself (Robinson, 1996). Violations, the subsequent affective reaction to a breach (Morrison & Robinson, 1997), have been shown to negatively impact civic virtue (Robinson & Morrison, 1995), job satisfaction, organizational commitment, organizational citizenship behaviour, in-role performance, innovation-related behaviours, and turnover intentions (Ng, Feldman, & Simon, 2010; Zhao, Wayne, Glibkowski, & Bravo, 2007). On the other hand, research has demonstrated that fulfilment of psychological contracts positively influences in-role performance and organizational citizenship behaviours directed at both the organization and individuals within the organization (Turnley, Bolino, Lester, & Bloodgood, 2003).

The first year of employment is a formidable time period for psychological contracts (Tekleab, Orvis, & Taylor, 2013). During this time, employees learn about the organization and adapt to their surroundings. Newcomer contracts are based on the employees' preconceived notions of the mutual obligations between themselves and the organization (Rousseau, 1995). Over the course of the first year, however, these obligations may fail to be upheld by one or both of the parties. In an effort to interpret such unpleasant surprises, newcomers engage in a sensemaking process (Louis, 1980; Weick, 1977), where they make cognitive adjustments to their expectations of both parties. A perceived breach in the psychological contract is likely to influence perceived future obligations. Given the relationships that psychological contracts and contract breach have with important work-related outcomes including job attitudes, job performance, and employee retention (Bal, De Lange, Jansen, & Van Der Velde, 2008; De Cuyper, Rigotti, De Witte, & Mohr, 2008; Zhao *et al.*, 2007), it is important to establish the impact of contract breach on perceptions of subsequent obligations.

Whereas researchers have theoretically attempted to describe the process of psychological contract formation (Herriot & Pemberton, 1996; Rousseau, 1995, 2001), there is a dearth of empirical research examining the role of contract breach on the perceived obligations themselves and the stability of those contracts during the first year of employment (see Robinson, Kraatz, & Rousseau, 1994, for an exploratory examination of the first 2 years of employment). The current study seeks to address this gap in the literature and contribute to our understanding of how psychological contracts change during this critical time period.

Using a sample of newcomers surveyed at three points in time over the first year of employment and multiple items to examine both employer and employee obligations, and breach, we answer the following research questions: (1) how much and in what direction do newcomer psychological contracts change during the first year of employment and (2) to what extent is change in psychological contracts a function of psychological contract breach? In doing so, this research study aims to make three contributions. First, we reveal the extent to which psychological contracts are stable during the first year of employment, providing researchers and practitioners insight into the cognitive adjustments new employees make during this critical socialization period. Second, we measure the influence of perceived employer breach on employee and employer subsequent obligations, which reveals how robust perceived obligations are to such violations.

Third, we identify the degree to which balance between obligations is affected by breach and the direction in which the perceived obligations shifts, providing theoretical insight regarding the stability of the mutuality dimension of psychological contracts.

Stability of psychological contracts

Psychological contracts develop through socialization processes, vicarious learning, social information processing, and multilevel factors (e.g., law, societal beliefs, occupations, employment experiences) during the early stages of employment (Dabos & Rousseau, 2004; De Vos, Buyens, & Schalk, 2003; Rousseau, 2001; Thomas & Anderson, 1998). According to Rousseau (1995, 1998, 2001), psychological contracts evolve into a relatively stable mental model, or a psychological representation about the way things are, that the employee refers to in order to determine whether obligations and expectations are being met. Correspondingly, Rousseau (1998) suggested that 'psychological contracts can be resilient in the face of organizational change and external shocks, rather than being easily violated or changed' (p. 669).

In contrast, other scholars have suggested that psychological contracts are flexible, naturally changing, and continuing to evolve over time (Baker, 1985; Conway & Briner, 2002; Herriot & Pemberton, 1996; Schein, 1980; Shore & Tetrick, 1994). If this is the case, the first year of employment should reflect this process, as the employee continues to learn about his or her role within the organization and about the organization overall. Indeed, Thomas and Anderson (1998) noted that organizational newcomers are naïve and have only rudimentary psychological contracts upon entry to the organization and that it is during the socialization process that they will add to their knowledge base and develop their psychological contracts. In line with this, the first year of employment consists of what Herriot and Pemberton (1996) viewed as the first two stages of psychological contracting: Informing and negotiating.

Our focus within the current study is on organizational newcomers and the ways in which a perceived breach impacts their psychological contracts during the first year of employment. We believe a breach will serve as a trigger for adjusting the psychological contract, occurring as part of the informing and negotiating phases of contract formation and organizational socialization. Nevertheless, we also expect stability, at least in terms of mutuality of employee and employer obligations, which we describe in the following section.

Mutuality of obligations

An employee's psychological contract is his or her beliefs about the terms and conditions (e.g., obligations) of the exchange relationship between him or herself and the organization (Rousseau, 1989). Whereas some psychological contract research has focused on employee obligations (Robinson *et al.*, 1994; Rousseau, 1990; Shore & Barksdale, 1998; Shore, Tetrick, Lynch, & Barksdale, 2006), most research has focused on employee perceptions of employer obligations (Boswell, Moynihan, Roehling, & Cavanaugh, 2001; Robinson, 1996; Rousseau, 2001). *Employer obligations* include pay, training, investment in the employee's career, concern for the employee's well-being, and support. *Employee obligations* include task performance, working on extra assignments, assisting colleagues, loyalty, and flexibility.

Theoretically, *both* parties have some obligations to the other. Operationally, psychological contracts can be conveyed by examining the level of reported employer

and employee obligations (Robinson *et al.*, 1994) or by examining the relationship between the level of the employer and employee obligations (De Cuyper *et al.*, 2008; Shore & Barksdale, 1998). This latter approach reflects the *degree of balance* or mutuality between the perceived levels of each party's obligations. In a *balanced* relationship, both the employer and the employee are perceived to have similar levels of obligations (i.e., both high or both low).¹ In an imbalanced relationship, one party is perceived to be more obligated than the other. This can occur in one of two ways: The employee is perceived to be less obligated than the employer (employee underobligated), or the employee is perceived to be more obligated than the employer (employee overobligated).

Imbalanced relationships are caused by a number of factors including a lack of fulfilment, the referent choice used for comparisons, and misunderstandings regarding obligations. Of interest in the current study is that of obligation fulfilment or lack thereof (i.e., breach). When one party's obligations have been fulfilled, the other party's obligations are heightened until they have reciprocated, thereby restoring balance to the exchange relationship. Despite evidence that reciprocity is related to positive organizational outcomes, described in the following sections, perceptions of balance have not been extensively examined. As such, we empirically examine perceptions of balance and the stability of balance over time.

Theoretical foundation

The theoretical basis for employees comparing employer and employee perceived obligations is grounded in social exchange theory and the norm of reciprocity (Coyle-Shapiro & Conway, 2004; Cropanzano & Mitchell, 2005). According to social exchange theory (Blau, 1964), individuals will reciprocate to those who benefit them. That is, when employees perceive that a mutual obligation exists between themselves and their employer, they are likely to uphold behaviours that serve as a form of payback directed towards the employer, especially if the employer has engaged in behaviours perceived to benefit them. Here, the employees feel obligated to return the gesture as a form of repayment or as an attempt to even out or balance the scales (Shore & Barksdale, 1998).

This perspective of social exchange theory is aligned with a norm of reciprocity expectation (Gouldner, 1960), which indicates that employees should return the help and support that has been extended to them by the organization. If this form of exchange holds, then this type of relationship and exchange behaviour is deemed to continue throughout the working relationship, thereby creating a strong social exchange resulting from a high degree of mutual obligations (De Cuyper *et al.*, 2008; Shore & Barksdale, 1998). Blau (1964) argued that balance in exchange relationships is preferred. Correspondingly, imbalanced relationships are likely to be temporary (Shore & Barksdale, 1998). Therefore, according to social exchange theory, most relationships are likely to be balanced or to become balanced over time.

Equity theory provides additional insight for examining these relationships. According to equity theory, employees naturally make comparisons between the ratio of their own perceived inputs and the outcomes they receive to the ratio of the perceived inputs and

¹ Note that a balanced exchange relationship is different from a balanced psychological contract that Rousseau (1995) defined as 'open-ended and relationship-oriented employment with well-specified performance terms subject to change over time' (p. 98).

perceived outcomes of a referent other (Adams, 1965). Through this comparison of ratios, employees evaluate their situation is equitable, under-rewarded, or over-rewarded. The underlying assumption is employees will pursue a balance between their own ratio of their inputs and outcomes and the ratio of the perceived inputs and outcomes of their referent other (Adams, 1965).

The referent in equity theory can be classified as other, self, and/or a system (Goodman, 1974; Summers & DeNisi, 1990). Drawing from Goodman (1974), a system referent could be an employing organization or employer. 'In an organizational setting, equity refers to an implied or psychological contract between an organization and an employee dealing with expected inputs and outcomes from both parties' (Hopkins & Weathington, 2006, p. 479), with the employee attempting to keep the 'give and take' in the relationship equal (Adams, 1965).

Another way to view referent others comes from referent cognitions theory (Folger, 1986) which posits that referent cognitions, or thoughts of 'what might have been', reflect internal standards of justice and can serve as the basis for comparison. According to referent cognitions theory, a social comparison is not necessary for feelings of injustice to result; rather, it is the 'comparison between reality (what happened) and an alternatively imaginable referent state (what might have happened instead)' (p. 158) that forms the basis for resentment.

Thus, social exchange theory, equity theory, and referent cognitions theory suggest that employees prefer and seek out balanced relationships with their employers. Consistent with this, there is empirical evidence for more balanced relationships than imbalanced relationships across a wide range of employee tenure (De Cuyper *et al.*, 2008; Shore & Barksdale, 1998; Tsui, Pearce, Porter, & Tripoli, 1997). Thus, we expect employees to report more balanced relationships than imbalanced relationships upon organizational entry and 1 year later.

Hypothesis 1: Employees report more balanced relationships than imbalanced relationships at (a) organizational entry and (b) 1 year of employment.

Psychological contract breach interpretation

Social exchange theory and equity theory suggest some level of stability in an employee's psychological contract. However, there is an underexamined third variable that is likely to determine how stable one's psychological contract is over time (De Vos, 2005). Specifically, a psychological contract breach is likely to trigger employees to change their perceptions of the psychological contract. According to Morrison and Robinson (1997), 'a perceived breach refers to the cognition that one's organization has failed to meet one or more obligations within one's psychological contract in a manner commensurate with one's contributions' (p. 230). If there is a perceived breakdown of reciprocity with one of the two parties failing to repay debts to the other party, then one party is likely to perceive a breach of the psychological contract and an imbalance in obligations (Deckop, Cirka, & Andersson, 2003). Theoretically, either party can breach the contract; however, in this study and consistent with Morrison and Robinson's (1997) definition, we focus on a breach committed by the employer. In other words, the employee perceives that the employer has failed to fulfil perceived obligations.

Psychological contract breaches occur quite frequently (Robinson & Rousseau, 1994). The corresponding effects of a breach on the subsequent perceived obligations can be explained by equity theory (Adams, 1965). This theory, however, suggests competing

predictions based on causal attributions made by the employee. On the one hand, breach may be perceived as an injustice, and as a result, the employee *decreases* his or her own perceived obligations to align them accordingly. Additionally, when interpreted as an injustice, the employee may *increase* the perceived obligations owed to him or her by the organization in an effort to compensate or make up for the breach and thereby restore equity and justice. On the other hand, breach may trigger adjusting one's obligations, which would lead to the opposite prediction. That is, when breach is seen as indicative of inappropriate or naïve expectations, as would be the case with organizational newcomers, employees will engage in the sensemaking process (Louis, 1980; Weick, 1995) to reconsider and adjust each party's respective obligations. Specifically, we expect such employees to *increase* their own perceived obligations and/or *decrease* their perceptions of the employer's obligations in an effort to adjust the psychological contract and enact a more realistic and appropriate contract arrangement.

Breach as a signal of injustice

According to equity theory (Adams, 1965) and referent cognitions theory (Folger, 1986), individuals compare ratios of their inputs (e.g., their obligations) and outcomes (e.g., employer obligations) to those of referent others and/or referent cognitions. When they perceive inequity, employees may reduce the feelings of inequity through several means, including increasing or decreasing inputs and outcomes or psychologically distorting said inputs and outcomes. Following a breach in the form of the employer failing to fulfil their obligations, employees may decrease their own perceived obligations (inputs) in an effort to create equity in the relationship. Alternatively or in addition, employees may increase their perceived entitlements or employer obligations (outcomes) in an effort to compensate for the breach. In this manner, the employee would attempt to account for the failure of the employer to fulfil its perceived obligations by creating an even greater level of obligations that would 'make up for' the original obligations that the employee felt were owed to him or her.

Some empirical research supports employees making adjustments to perceived obligations following a breach. For example, Robinson *et al.* (1994) found that employer breach² was significantly related to a decline in some employee obligations. Similarly, Parzefall and Coyle-Shapiro (2011) reported that employees who experienced a breach reduced their commitment to the organization and had little motivation to go beyond their formal duties. Thus, findings suggest that employees downwardly adjust their own obligations following a psychological contract breach.

Breach as a trigger for psychological contract adjustment

Alternatively, breach can be interpreted as a trigger for adjusting the psychological contract. Given a newcomer's limited direct experience with his or her organization, it is quite possible that he or she would perceive a breach as a misunderstanding or misinterpretation of obligations. Whereas the tenets of equity theory would still apply

² Robinson *et al.* (1994) referred to their measure of employer fulfilment of obligations as 'employer violation'. They describe their measure as follows: 'Respondents were asked to indicate how well their employers had fulfilled obligations' on a 5-point scale (1 = very well fulfilled, 5 = very poorly fulfilled) (p. 143). However, this measure seems more consistent with Morrison and Robinson's (1997) definition of a breach which is a cognitive evaluation rather than a violation which they define as an emotional and affective state.

in that newcomers would likely alter their perceived obligations to restore equity, the nature of the altered perceptions would differ. Employees would resolve the resultant inequity in a way meant to make each party's obligations more realistic and appropriate.

Based on the sensemaking process that takes place during organizational socialization (Thomas & Anderson, 1998), we propose that a breach is more likely to be interpreted by a newcomer as a need to adjust one's perceptions. When an employee first enters an organization, he or she has a set of preconceived notions regarding what an employee should provide as well as for what the employer is responsible (Rousseau, 1995). These expectations of their own obligations as well as those of the new employer may be based on past experiences with different organizations or from information obtained during the pre-hire recruitment period (Rousseau, 1995). As newcomers are socialized into the organization, they are likely to adjust their earlier expectations to align with what they perceive and learn upon entry (Morrison, 2002).

Research on the 'honeymoon-hangover effect' supports instability in newcomer job satisfaction and downward adjustments during organizational socialization (Boswell, Boudreau, & Tichy, 2005; Boswell, Shipp, Payne, & Culbertson, 2009). Considering this heightened satisfaction along with the positive portrayal of employment at the new organization that accompanies standard recruitment efforts (cf. Collins & Stevens, 2002), employees will likely have overly positive views of what their new relationship will entail. Their limited and incomplete understanding of their new role and the terms and conditions of the employment relationship likely leads to overinflation of their perceptions of expected employer inducements (Rousseau, 2001). Indeed, this may explain why realistic job previews are related to lower initial expectations (Phillips, 1998).

In addition to having inflated views of what the organization owes them, organizational newcomers are likely to have *deflated* views of what they owe to the organization. In line with Boswell *et al.*'s (2009) findings regarding the 'honeymoon effect', employees likely make downward comparisons regarding their obligations in reference to what they did in previous jobs. That is, the notion of 'the grass is greener' may be at play when individuals first begin employment, with the new job seemingly better in all regards, including their own levels of obligations to the employer.

Over time, the employee will go through a series of interactions with organizational stakeholders, some of which may result in contract fulfilments and others that reflect breaches. This is also a time period of heightened sensemaking. To the extent that the employee views breaches as indications that the original psychological contract was merely inaccurate, the employee is likely to choose to adjust perceived obligations in an effort to create a more equitable exchange relationship. This exposure to the realities of the employment relationship may contribute to what Boswell *et al.* (2009) termed the 'hangover' period, a time in which job satisfaction levels begin to decrease to levels closer to what they were at previous jobs. It is during this time that employees adjust perceptions of employer obligations.

Although newcomers often have deflated views of their own obligations, we do not expect employees to increase their own obligations after an employer breach of obligations. That is, given the desire for equity and balance, it is unlikely that an employee would decide to react to a lack of fulfilment on the part of an employer with the decision to increase his or her own obligations, as this would result in an even greater discrepancy. Rather, we would expect newcomers to adjust their own obligations downward to align with the lower, more realistic, organizational obligations. Thus, although the prediction

for the adjustment to one's own obligations remains the same as when breach is perceived as an injustice, the rationale for lowering one's obligations is different. That is, rather than lowering their own obligations as 'payback' for injustice, they are lowering them to be more consistent with reality.

A recent qualitative study sheds light on how employees make sense of psychological contract breach (Parzefall & Coyle-Shapiro, 2011). Following a breach, the authors found that there is a period of sensemaking in which the employee attempts to clarify whether a breach actually occurred or whether it was misunderstanding or misinterpretation on the part of the employee. If the breach is seen as a misunderstanding, minimum alterations in perceived obligations resulted. Psychological contract researchers have long speculated about the possibility of breach being interpreted as a misunderstanding (Morrison & Robinson, 1997; Rousseau, 1995) and have just started to find evidence to support this (Chaudry, Wayne, & Schalk, 2009).

In summary, if employees view inequity resulting from a breach as an indication that their original beliefs regarding each party's obligations were misguided or unrealistic, the breach is likely to serve as a trigger to adjust the psychological contract. Given the nescient nature of a newcomer's employment relationship, we believe this is more likely to occur following a breach. That is, whereas breach could serve as a signal of injustice, as described earlier, it is more likely to be perceived by newcomers as a trigger that additional sensemaking is necessary. As such, the newcomer is expected to resolve the inequity and create alignment, both with regard to the employee and employer obligations and with regard to perceptions and actual fulfilment by *decreasing* his or her own obligations and *decreasing* those of the employer.

Hypothesis 2: Employer breach is associated with a significant decrease in perceived **employee** obligations from organizational entry to 1 year of employment.

Hypothesis 3: Employer breach is associated with a significant decrease in perceived **employer** obligations from organizational entry to 1 year of employment.

Method

Participants and procedure

New employees to a public sector organization in the south-west of the United States completed three online surveys over the course of their first year of employment. Participation in the study was voluntary. The first survey was administered on the first day of employment during new employee orientation. To increase participation, the researchers were given time alone with employees during the orientation where they briefly described the study as an examination of newcomers' employment attitudes and ensured their responses would remain confidential. In an effort to increase response rates to the follow-up surveys, employees were sent an email from the organization's human resources manager reminding them that the researchers would be contacting them. Then, on their respective 6-month and 1-year anniversary dates, employees were sent a link to the follow-up surveys. A reminder email was sent the following week to participants who did not complete each follow-up survey. On average, five new employees joined the organization each month, so in order to collect sufficient number of newcomers to test our hypotheses, newcomer data at employee orientation were collected for a little over 1 year.

The number of respondents who participated at Time 1 (T1) was 132 of 141 available newcomers (94% response rate); the number participating at Time 2 (T2) was 99 of 113 (19 people were no longer employed; 88% response rate); the number participating at Time 3 (T3) was 88 of 106 (26 people were no longer employed; 83% response rate; 62.4% overall final response rate). Of the 26 people who were no longer employed by T3, 13 were the result of voluntary turnover, seven were involuntary, and the remaining six employees were not able to be classified due to insufficient information from the organization. Those who turned over were not significantly different from those who remained on any of the variables examined at T1 with one exception; those who left perceived greater employee obligations at T1 ($M = 4.38$, $SD = 0.52$) than those who remained, $M = 4.15$, $SD = 0.55$, $t(40) = -1.97$, $p = .01$.³

Although all from the same organization, participants in this study were quite diverse in terms of their job duties/titles (44 unique job titles), prior experience, and age levels. They held a wide variety of jobs (i.e., 62% professional/administrative, 22% clerical, 11% skilled craft/technical, 2% executive, 1.5% service maintenance), with their reported years of work experience ranging from three to 42 years ($M = 15.74$; $SD = 10.19$). Of those individuals who completed the first survey, 65% were male, approximately 86% were Caucasian, 3% were African American, and 8% were Hispanic. Participants' ages ranged from 20 to 63 years ($M = 39$, $SD = 10.7$). The average salary was \$41,451 ($SD = \$15,800$). This demographic make-up was representative of the organization as a whole.

Measures

Psychological contracts

We assessed employee perceptions of the employer's and the employee's obligations at T1 (the first day of employment) and T3 (after a year of employment). We used Rousseau's (1998) *Psychological Contracts Inventory*. This inventory consists of 18 items measuring the extent to which employees view the organization has obligated itself to provide such things as job security, stable pay, career development, and support to them, and 17 items assessing the extent to which they view that they are obligated to provide such things as hard work, loyalty, and continued employment with the organization. Response choices ranged from 1 (not at all) to 5 (great extent).

To test Hypothesis 1 and Hypothesis 3, we needed to first confirm that our data supported the hypothesized four exchange relationships (two balanced relationships: (1) mutually high and (2) mutually low, and two imbalanced relationships: (3) employee overobligated and (4) employee underobligated). We used a latent variable modelling technique called latent profile analysis (Magidson & Vermunt, 2004) to determine the number and nature of the exchange relationships within our data (cf. De Cuyper *et al.*, 2008). Models were estimated with Mplus, version 6.12 (Muthén & Muthén, 2011) using full-information maximum likelihood. Conceptually, latent profile analysis classifies individuals into groups where the number of groups and forms of the groups are unknown. It uses observed variables (perceived employee and employer obligations) as indicators of one or more latent categories. Individuals are classified into categories

³ Consistent with a recent meta-analysis that found psychological contract breach was not related to actual turnover behaviour (Zhao *et al.*, 2007), there was not a significant difference between employees who turned over between T2 and T3 ($n = 7$, $M = 3.08$, $SD = 0.26$) on psychological breach and those who stayed, $n = 92$, $M = 2.58$, $SD = 0.77$, $t(7) = -1.83$, $p > .05$.

without the grouping variable being directly observed. Instead, membership is inferred from the observed data. Individuals are assigned to categories based on the probability that their set of scores on a series of variables (i.e., their profile) belongs to that category. Each individual in the sample is assigned to the category in which they have the highest posterior probability of membership.

The number of profiles was determined based on the statistical adequacy of the solution, the substantive meaning and theoretical conformity of the extracted profiles, and the interpretability and usefulness of profiles in practice (Bauer & Curran, 2003; Muthén, 2003; Nylund, Asparouhov, & Muthén, 2007). Several statistical tests and indices were considered: (1) the Akaike information criterion (AIC: Akaike, 1987), (2) the Bayesian information criterion (BIC: Schwartz, 1978), and (3) the sample-size-adjusted BIC (SABIC: Sclove, 1987). Lower values of AIC, BIC, and SABIC indicate a preferred model.

Latent profile analyses revealed that four profiles fit the data best for both T1 and T3 (see Table 1). Consistent with past research examining clusters of relationships (De Cuyper *et al.*, 2008; Janssens, Sels, & Van den Brande, 2003; Shore & Barksdale, 1998; Tsui *et al.*, 1997), two balanced relationships (mutually high and mutually low) emerged for both time periods. Unlike previous research, a third balanced relationship also emerged: Mutually medium. One of the advantages of latent profile analysis is that it allows for average levels of the focal variables to form a cluster, unlike the median-split approach. The final profile that emerged was an employee underobligated. Means scores for the employer and employee obligations variables for these four profiles appear in Table 2.

Table 1. Latent profile analyses

	1 Profile	2 Profiles	3 Profiles	4 Profiles
Time 1				
AIC	10,914	9,631	9,033	8,656
BIC	11,116	9,936	9,441	9,167
Sample-size-adjusted BIC	10,894	9,601	8,992	8,604
Entropy	na	0.97	0.99	0.99
N for each profile				
P1	131	75	70	49
P2		56	35	26
P3			26	24
P4				32
Time 3				
AIC	8,660	7,507	7,195	7,050
BIC	8,834	7,770	7,547	7,491
Sample-size-adjusted BIC	8,613	7,435	7,099	6,929
Entropy	na	1.00	0.99	0.98
N for each profile				
P1	88	30	23	13
P2		58	35	33
P3			30	30
P4				12

Note. AIC, Akaike information criterion; BIC, Bayesian information criterion; P, profile.

Table 2. Psychological contract breach by four exchange relationships after 1 year of employment

Profiles	<i>n</i>	<i>M</i>	<i>SE</i>	95% CI	Minimum	Maximum
1. Mutually high						
T1: 4.78–4.79	26					
T3: 4.05–4.29	30	1.97	.09	1.78–2.16	1.00	2.83
2. Employee overobligated						
T1: 3.67–4.59	32					
T3: 2.28–2.71	12	3.56 ^a	.16	3.24–3.87	2.11	4.33
3. Mutually medium						
T1: 3.91–3.94	49					
T3: 3.21–3.80	27	2.66	.10	2.46–2.85	1.78	3.61
4. Mutually low						
T1: 2.97–3.54	24					
T3: 2.28–2.71	11	3.11 ^a	.16	2.80–3.43	1.72	3.94

Notes. T1, Time 1; T3, Time 3; CI, confidence interval. Marginal means with the same superscripts are not significantly different from one another ($p = .048$). Numbers in the first column represent means for employer and employee obligations, respectively, for each profile. Because we controlled for starting salary, sample size at T3 was slightly reduced ($n = 80$).

Contract breach

We assessed employee perceptions of employer breach at T2 (after 6 months of employment) in a similar manner to previous researchers (Conway, Guest, & Trenbeth, 2011; Robinson, 1996) using a modified version of Rousseau's (1998) *Psychological Contracts Inventory*, which consisted of the same 18 items measured at T1, but with the instructions modified such that responses indicated the extent to which employees view the organization has actually fulfilled the commitments to them (cf. Turnley & Feldman, 2000). Response options ranged from 1 (not at all) to 5 (great extent). Scores were reverse-coded so that higher scores on this measure indicated greater levels of contract breach.

Control variables

We controlled for sex, age, and starting salary (obtained from organizational records) in all analyses. Sex and age were included as control variables given that previous research has shown that they influence psychological contract perceptions (De Vos, 2002; Lester, Turnley, Bloodgood, & Bolino, 2002). In addition, pay is often described as an attribute of a psychological contract, whereby pay is perceived as a form of inducement that entices an employee to reciprocate through employee contributions (e.g., hard work, loyalty, commitment; Rousseau, 1990). As such, we also controlled for starting salary given that it could impact the employee's perception of the psychological contract.

Results

Table 3 provides descriptive statistics, coefficient alphas, and correlations among the variables of interest in this study. Examination of the mean level of perceptions of employee and employer obligations at T1 and T3 revealed a general decrease over time for both sets of obligations. Employees also tended to perceive that they had a higher level of obligations to the employer than the employer had to them at both time periods.

Table 3. Descriptive statistics, correlations, and reliability estimates

	M	SD	1	2	3	4	5	6	7	8
1. Sex	0.39	0.49	–							
2. Age	39.13	10.66	-.02	–						
3. Starting salary	40841.09	15936.17	-.29**	.41**	–					
4. T1 Employer obligations	3.86	0.66	.09	-.19*	-.18*	(.96)				
5. T1 Employee obligations	4.20	0.55	.02	-.12	-.09	.55**	(.92)			
6. T2 Employer breach	2.61	0.77	-.16*	.11	.03	-.45**	-.36**	(.96)		
7. T3 Employer obligations	3.22	0.85	.21*	-.19	-.16	.47**	.36**	-.76**	(.97)	
8. T3 Employee obligations	3.79	0.66	.08	.01	-.02	.47**	.58**	-.55**	.67**	(.93)

Notes. *N* ranges from 88 to 132. T1 = Time 1 (first day of employment); T2 = Time 2 (6 months of employment); T3 = Time 3 (1 year of employment). Sex is coded 0 = male; 1 = female. Coefficient alphas on the diagonal.

* $p < .05$; ** $p < .01$.

Similar to Robinson's (1996) findings regarding trust and subsequent perceptions of breach perceived obligations at T1 were negatively related to perceptions of breach at T2.

Hypothesis 1 proposed that more employees would report balanced relationships than imbalanced relationships upon organizational entry (T1) and after 1 year of employment (T3). To test this, we computed a chi-square test to determine whether the number of individuals reporting balanced relationships at T1 ($n = 99$) and T3 ($n = 76$) were significantly greater than the number of employees reporting imbalanced relationships at T1 ($n = 32$) and T3 ($n = 12$), respectively. Results revealed that significantly more individuals reported balanced than imbalanced relationships at T1, $\chi^2(1, N = 131) = 34.27, p < .05, \phi = .51$, and at T3, $\chi^2(1, N = 88) = 55.15, p < .05, \phi = .79$. Thus, our first hypothesis was supported for both time periods.

We proposed a decrease in perceived employee obligations following an employer breach on employees' perceptions of their obligations.⁴ To test this, we regressed mean employee obligations at T3 on mean employee obligations at T1 and on mean employer breach at T2, while controlling for respondent sex, age, and starting salary. Consistent with Hypothesis 2, employees reported a decrease in their own obligations; however, psychological contract breach was not significantly related to the decrease ($\beta = -.16, p = .19$).

We proposed employees will report a decrease in employer's perceived obligations following an employer breach. Similar to our test for Hypothesis 2, we regressed mean employer obligations at T3 on mean employer obligations at T1 and on mean employer breach at T2, while controlling for respondent sex, age, and starting salary. Contract breach was significantly associated with a decrease in what employees perceived their employers owed them ($\beta = -.42, p = .01$). Thus, Hypothesis 3 was supported.

⁴ Paired t-tests revealed employees' perceptions of 13 of 17 employee obligations decreased significantly from T1 to T3.

Table 4. Results of multiple regression analyses for employer obligations^a

T3 Employer Obligations	T1 M (SD)	T3 M (SD)	T1 Obligs	T2 Breach	Adjusted R ²	F
1. Show concern for my personal welfare	3.73 (0.87)	3.16 (0.95)	.23*	-.23	.15	3.82**
2. Be responsive to employee concerns and well-being	3.83 (0.85)	3.28 (1.02)	.34**	-.31**	.29	7.34***
3. Make decisions with my interests in mind	3.56 (0.88)	2.76 (1.07)	.08	-.46***	.23	5.62***
4. Show concern for my long-term well-being	3.73 (0.81)	3.05 (1.06)	.13	-.45***	.27	6.83***
5. Supply secure employment	3.74 (0.93)	3.22 (1.07)	.36**	-.15	.25	6.10***
6. Provide salary and benefits I can count on	3.86 (0.75)	3.51 (0.84)	-.02	-.61***	.29	7.14***
7. Supply stable benefits for families.	3.80 (0.81)	3.64 (0.78)	.18	-.36**	.19	4.70***
8. Provide a competitive benefits package	3.88 (0.81)	3.57 (0.84)	.19	-.38**	.28	7.15***
9. Supply training in skills that increase my opportunities for promotion	3.94 (0.85)	3.34 (1.15)	.09	-.54***	.40	11.35***
10. Offer developmental opportunities within my organization for me	3.88 (0.87)	3.31 (1.16)	.13	-.48***	.35	9.46***
11. Provide opportunities for promotion and advancement	3.74 (0.82)	2.87 (1.18)	.16	-.50***	.27	6.72***
12. Help me develop externally marketable skills	3.59 (0.97)	3.03 (1.24)	.19*	-.53***	.49	15.98***
13. Provide job assignments that enhance my external marketability	3.44 (1.02)	3.03 (1.10)	.22*	-.59***	.53	18.99***
14. Expose me to individuals who enhance my future employment prospects	3.51 (0.95)	3.16 (1.11)	.19*	-.54***	.42	12.55***
15. Support me to attain the highest possible levels of performance	3.86 (0.84)	3.25 (1.00)	.36***	-.50***	.51	17.40***
16. Help me to meet increasing standards of performance	3.83 (0.83)	3.26 (1.03)	.22*	-.52***	.48	15.40***
17. Support and challenge me to meet progressively higher goals	3.89 (0.81)	3.27 (1.08)	.18*	-.57***	.46	14.54***
18. Set ever more difficult and challenging performance goals for me	3.68 (0.87)	3.17 (1.03)	.03	-.52***	.26	6.44***

Notes. ^aBeta coefficients controlling for sex, age, and starting salary are reported. All obligations reflect employee perceptions of employer obligations. T1 = Time 1; T2 = Time 2; T3 = Time 3; Obligs = obligations; breach is the corresponding item-level employer contract breach at Time 2.

* $p \leq .05$; ** $p \leq .01$; *** $p \leq .001$.

We also examined the influence of psychological breach on perceived obligations at the individual obligation level (i.e., item level). Eighteen paired *t*-tests revealed the decreases in perceptions over time were significant for all but one obligation. Because we asked specific questions about the psychological contract breach employees experienced that corresponded to the employer obligation items, we also examined the influence of the breach on the corresponding obligation at T3 by conducting regressions at the item level (cf. Robinson *et al.*, 1994). This allowed us to match specific obligations and breach across the three time periods. Table 4 shows the results of these regression analyses. As shown, contract breach resulted in a significant decrease in 16 of 18 employer obligations.

Discussion

This study sought to better understand how much newcomer psychological contracts change over the first year of employment and whether change was a function of a psychological contract breach. Consistent with social exchange theory, equity theory, and prior research (Shore & Barksdale, 1998; Tsui *et al.*, 1997), our findings show that employees reported more balanced than imbalanced relationships at two time periods. This suggests that even though employees may gain insight on the functioning of the organization, work groups, and job duties over time and that these insights may change attitudes towards the organization (cf. Boswell *et al.*, 2005), the general notion of reciprocity and mutual obligations (Dabos & Rousseau, 2004) in the employment relationship remains.

Interestingly, there were more imbalanced relationships on the first day of employment than there were at 1 year of employment. This raises questions as to why those employees did not perceive a mutual level of obligations and why they would enter into such a relationship, particularly one in which they owed more than the employer. Although perceived obligations at entry are related to perceived obligations 1 year later (see Table 3; .47–.58), our data also reveal a change in the psychological contract during the first year of employment.

It is also noteworthy that an employee underobligated relationship did not emerge for our sample at entry or after 1 year of employment. This relationship has been previously labelled as an ‘instrumental psychological contract’ (Janssens *et al.*, 2003) and might be described as a scenario in which the employee feels ‘entitled’ to various benefits from the organization. The popular press has described younger generations of employees as having this mentality or belief system (Twenge, 2006), and age has been shown to moderate multiple breach–job outcome relationships (Bal *et al.*, 2008). On average, employees in our sample were 39 years of age, so not necessarily representative of entry-level employees. Although age was not a significant predictor of the four exchange relationships that emerged in our data, researchers may want to further examine the influence of employee age on perceived obligations and breach.

In contrast to the employee underobligated relationship, a mutually medium exchange relationship in which each party has a medium level of obligations emerged. This relationship may not have emerged in previous studies in part because of the analytical techniques used to identify groups within the sample. Contrary to a median-split or cluster analysis approach, we employed latent class analysis. Overall, the emergence of a mutually medium exchange relationship along with the mutually low and mutually high

relationships provides further support for the mutuality dimension of psychological contracts (Dabos & Rousseau, 2004).

Perceived imbalance in the employment relationship appears to be in part a function of perceived psychological contract breach by the employer, reinforcing previous research showing the important role of a breach on subsequent psychological contracts (Robinson, 1996). Individuals in employer underobligated relationships reported a higher level of psychological contract breach than employees in mutually high or medium obligation relationships. A perceived breach by the employer may foster generally lowered employer expectations regarding the employment relationship, suggesting that the breach was interpreted more as a trigger for adjustment as opposed to a signal of injustice. Given our focus was on the first year of employment, this interpretation of a breach demonstrates that the sensemaking process involves reducing uncertainties (Berger, 1979) and realigning expectations.

Nevertheless, although we found support for the notion that breach is interpreted as a trigger for adjusting perceived obligations, it remains equally probable that a breach could serve as a signal of injustice later in the employment relationship and lead to decreased employee obligations and *increased* employer obligations. Research extending beyond the first year of employment will illuminate this possibility. Additional research is also needed to probe the details behind breaches to determine whether exchange relationships are determined more by the quantity of breaches or the nature of the specific breaches experienced.

Theoretical and practical implications

Our study provides additional support for social exchange theory, equity theory, and referent cognitions theory, but also illuminates the importance of the tenure of the sample when predicting the interpretation of a breach. Additionally, our study demonstrates that the mutuality dimension of psychological contracts is quite robust (Dabos & Rousseau, 2004; De Cuyper *et al.*, 2008; Shore & Barksdale, 1998).

There are important practical implications for the finding that perceptions of contract breach resulted in decreased employer obligations, as perceived by employees. Whereas it is clear that an employer would not want low employee obligations as this implies the employee does not expect to fulfil such obligations as being loyal and performing tasks, it is perhaps also not ideal for an employee to view the employer as having low obligations. If employees do not perceive that the employer owes them such things as care and concern, training, or a fair salary, it is unlikely they will remain committed to or satisfied with the organization for very long. Thus, management should clearly communicate expectations and monitor those expectations over time.

Our findings suggest that although a balanced relationship is preferred, and even sought by individuals, experiencing a breach in those expectations may lead to an imbalanced relationship and an altering of perceived employer's obligations. Thus, consistent with Schein's (1980) proposition, psychological contracts appear to evolve over the first year of employment as the employee continues to learn about his or her role within the organization and about the organization overall, thereby offering opportunities for employers to shape expectations.

Our finding that the balanced categories are more prevalent demonstrates that individuals expect both sides to give 'more' or both sides to give 'less'. This is not surprising, especially at entry because employees are 'accepting' these relationships. Yet it would be interesting to examine individual differences that predict the way in which

employees view *imbalanced* relationships. Why would individuals accept imbalanced relationships particularly where organizations owe them less? People hold an average of 11.3 jobs between the ages of 18 and 46 (United States Department of Labor, 2012). As such, organizations must attract and retain key employees in the midst of an environment where employees have been conditioned to be mobile (Ho, 2005). Understanding when and why employees accept positions in which they do not feel they will be treated equitably is an important area worthy of future research.

Our data also revealed a general trend, regardless of breach, that employees' perceptions of both their and their employer's obligations decrease significantly over time. As argued, employees enter the employment relationship with slightly exaggerated personal obligations and/or overly optimistic expectations from their employer and, over time, reality sets in. This is consistent with research demonstrating the 'honeymoon-hangover effect' in newcomer job satisfaction (Boswell *et al.*, 2005, 2009). If this is a typical reaction to settling into the job, a decrease in employee expectations for and from the employment relationship need not be concerning to employers; this may be a healthy and necessary readjustment of unrealistic expectations that managers may want to actively pursue by periodically checking in with newcomers during the socialization period. On the other hand, averting this general decline in employee expectations through realistic job previews and expectation-lowering procedures is likely valuable given the extensive literature on the importance of realism and met expectations in the employment relationship (Phillips, 1998; Wanous, 1980).

Strengths, limitations, and directions for future research

We contribute to the literature by examining both employer and employee obligations and focus on level of obligations as well as the nature of the exchange relations (e.g., balanced, imbalanced). We measured contract breach using a multi-item scale that matched the initial obligations assessed and demonstrated good reliability. Nevertheless, the measure is limited in that it does not recognize the potential differential importance of some elements of the psychological contract over other elements and did not explicitly capture the direction of the breach (under or over fulfilment; cf. Robinson, 1996; Turnley & Feldman, 1999).

We obtained data on three separate occasions, with respectable response rates on surveys that were not anonymous, and assessed employee perceptions of obligations at two points in time. Ashforth and Saks (1996) argued that 'basic adjustment occurs much more rapidly than anticipated by various socialization models' (p. 171). More frequent reports of perceived obligations and breach would allow for greater precision in detecting potential changes in perceived obligations and the effects of specific breaches on various outcomes. It would also be informative to measure breach and obligations at the same time period to examine the cross-sectional relationship or more immediate effects of breach on perceived obligations. For example, does breach immediately affect perceived obligations and balance? For how long after a given breach are obligations and balance affected?

Given our focus on newcomers, it would be informative to examine the influence of breach on more tenured employees and across different organizational experiences. Furthermore, recognizing that the current investigation provides a one-sided view of employee and employer obligations, we encourage researchers to gather perceptions of obligations and breach from multiple sources. We focused on the balance between employer and employee obligations, but it would also be interesting to examine other

referent groups such as the employee's co-workers. This raises questions about the best way to conceptualize balance and some interesting level of analysis challenges.

Our sample was limited to newcomers in a public employer/state agency, raising uncertainties about the generalizability of our findings to private sector employees. That said, the respondents comprising the current sample represented a diverse array of divisions within the organization, consisting of various job duties/titles, prior experience, and age levels. Further, researchers have highlighted the importance of the context of the organization to the development of psychological contracts (Rousseau & Schalk, 2000); thus, testing our hypotheses on a sample of newcomers from the same organization enhances the internal validity of our study and facilitates the ability to rule out alternative explanations for our findings related to contextual differences.

In conclusion, our study revealed that psychological contracts change over the first year of employment. Both perceived employer and perceived employee obligations decreased significantly over this time period, and breach by the employer was associated with significantly greater declines in perceived employer obligations. Consistent with social exchange and equity theory, employees reported more balanced than imbalanced relationships at entry and on their 1-year anniversary. It is hoped that this study inspires additional research on the development and change of psychological contracts over time.

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