

Managing the Employment Relationship in Different Cultures

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### **EXECUTIVE SUMMARY**

**BACKGROUND:** As firms struggle to cope with a dynamic business environment, effective management of human resources is viewed as fundamental to organizational effectiveness. Broadly, the present proposal investigates the ways in which societal culture influences how employees come to understand the terms of their employment relationship (what they expect from their employer and what they think they owe their employer) and their reactions when their company fails to meet those terms. For example, what employees from collectivistic cultures such as China expect from their employer may differ from what U. S. employees expect. Understanding these relationships is important for companies that desire to effectively manage the employer-employee relationship (e.g., employee turnover, satisfaction, commitment) with employees from different cultural backgrounds.

**PROPOSED STUDY:** This study examines the employee-organization relationship by examining employee perceptions of what they owe their company and what they feel their company owes them in return. We examine these issues from a cross-cultural perspective by investigating how societal culture impacts employee beliefs regarding their obligations to the organization and what the organization owes them. Specifically, we will look at how the cultural attribute of collectivism, which is the degree to which an individual defines himself/herself as a group member rather than an individual, affects how employees perceive the terms of their employment relationship. Furthermore, while many studies have focused on employees' attitudinal and behavioral reactions to their organization's failure to fulfill obligations, less is known about whether culture augments or tempers these employee reactions. For example, will collectivistic employees respond less negatively to their organization's failure to fulfill obligations than individualistic employees? The present study proposes that culture is a key lens through which employees perceive organizational obligations.

**RESEARCH QUESTIONS:** In summary, we seek to answer the following:

- (1) How does culture impact employee perceptions of their employment relationship?
- (2) How does culture impact employee reactions to organizational failure to fulfill its obligations?  
Do employees from collectivist cultures compared to those from individualistic cultures respond less negatively when their company fails to fulfill its obligations?

**BENEFITS OF PARTICIPATING:** The proposed study offers important implications for effectively managing the employee-organization relationship. First, understanding what employees from different cultural backgrounds expect from their employers may provide key information for designing effective communication and reward systems that will retain employees with different backgrounds. Second, evaluation of how employees respond to the company's lack of fulfillment of some obligations provides insights as to how to reduce turnover and increase loyalty, commitment, and performance. Finally, examination of how these processes and responses may be influenced by culture will provide information on tailoring policies and practices to suit varying cultural contexts.

**NEEDS, SCHEDULE, AND BUDGET:** We intend to survey a minimum of 200 employees and their direct superiors. In order to obtain variability on our culture measure, it is critical that this sample include employees from diverse cultural backgrounds. Surveys will be web-based or paper and pencil and will take approximately 15-20 minutes to complete. The estimated cost of the project is \$\_\_\_\_. Development of the research materials will occur in Spring 2008, the data collection will take place in Summer 2008, and analyses and preparation of the report of the findings will occur in Summer/Fall of 2008.

## **Managing the Employment Relationship in Different Cultures**

Today's businesses operate in an increasingly complex and global environment, with companies conducting more and more business in foreign countries. As such, organizations are faced with the challenge of managing a culturally diverse workforce. Research suggests that effective management of the employer-employee relationship can directly influence important organizational outcomes such as turnover, commitment, and performance. The broader national culture that the employment relationship is embedded can shape employees' expectations about the organization, including what they feel their organization owes them (perceived obligations). For example, a recent study by King and Bu (2005) focused on whether different components of employees' perceived obligations of the employer varied by culture and found that U.S. employees valued career advancement and job completion timeliness as more important factors than Chinese employees. Similar to King and Bu (2005) we use culture as a lens through which employees perceive their own obligations and employer obligations. However, in contrast to these researchers we will examine culture as a key moderator of how an employee perceives an organization's failure to provide perceived obligations.

The purpose of this research is to investigate the role culture plays in the employment relationship. Specifically, the study will examine how culture influences: (1) employees' perceptions of what the organization owes them and what they owe the organization in return; (2) employees' belief that the organization has failed to fulfill its obligations; and (3) employees' reactions when they believe that the organization has failed to fulfill its obligations, known as PC breach. Figure 1 shows a diagram of the relationships to be examined.

### **Antecedents of Psychological Contract Breach**

The psychological contract (PC), which refers to an employee's beliefs about the reciprocal obligations between that employee and his or her organization (Rousseau, 1995), is the foundation of the employer-employee relationship (Robinson & Morrison, 2000; Rousseau, 1989). Research on psychological contract has gained interest in the employment relationship literature. In particular, many studies have examined factors leading to PC breach, as well as the effect of PC breach on organizational outcomes such as performance, commitment, and turnover. Given that culture influences how individuals receive and process information within its context (Shaw, 1990), factors that lead to psychological breach in one culture may differ from another culture. Furthermore, even when employees perceive PC breach, cultural values may influence their emotional and behavioral response to these perceptions. Thus, understanding the effect of culture on perceptions of PC breach is particularly relevant in today's global environment.

Researchers have advanced several models to explain the processes by which PC breach develops. For example, Rousseau (1995) describes from the employee's perspective the process through which a discrepancy between what the employer promised and what the employee believes was promised could lead to a perception of breach. Since the PC is inherently perceptual and subjective, one party's interpretation of the terms and conditions of the obligations within the relationship may not be shared by the other party (Rousseau, 1995). Moreover, the PC has multiple sources of information, leading employees to develop different understandings of employer obligations (Dabos & Rousseau, Working Paper). As such, an employee's perception of PC breach could occur because of different understandings of the

contract terms. We therefore predict that the greater the discrepancy between an employee's and her employer's perceptions about the PC, the more likely the employee will perceive PC breach. *Research Question 1: Does the extent of discrepancy between an employee's and his or her employer's perceptions regarding the terms of the employment relationship affect the employee's perception of psychological breach?*

According to social cognitive theory (Bandura, 1989), a person's behavior is partially shaped and controlled by the influences of social networks and the person's cognitions (e.g., expectations and beliefs about the employment relationship). Nahapiet and Ghosal's (1998) research on knowledge transfer suggests that values, norms, and information pertinent to the PC, such as obligation expectations, are exchanged through the organizational social networks. This suggests that employees share information about their PC with coworkers in their social network.

Coworkers are valuable sources of information about the job and organizational policies and procedures. They also provide social cues that help to reduce the discrepancy between an employee's and his or her employer's interpretation of the terms of the employment relationship. For instance, coworkers can resolve ambiguous policies and procedures by offering socially-constructed interpretations (Dabos & Rousseau, working paper). Thus, the more employees exchange information about their PC with coworkers, the more likely the discrepancy between what the employer actually promised and what the employee believes was promised is reduced.

The extent to which employees share information about their PC depends on the quality of their relationships with their coworkers such as the degree of interaction, trust, and identification with their coworkers (Nahapiet & Ghosal, 1998). When trust exists between two parties, they are more willing to engage in cooperative interaction such as information sharing. Furthermore, strong identification with group members fosters loyalty and willingness for members to maintain committed relationships with group members. This commitment will motivate group members to exchange information about their PC. We therefore predict that the quality of relationships between employees and their coworkers (due to increased information sharing) will reduce the discrepancy between employee and employer perceptions of the PC. *Research Question 2: Does the quality of employees' relationships with their coworkers influence the degree of discrepancy between employee and employer perceptions of the PC?*

The constraints a society places on various organizational processes and relationships are well documented in the management literature. The employer-employee relationship is shaped by the cultural milieu in which it is embedded.

For example, the way cultures identify and interact with in-groups (people considered to be part of the inner circle) and out-groups (people that are not considered to be part of the inner circle) may differ as a result of culture. Whereas individualistic cultures are more selective in terms of whom they consider in-group, collectivistic cultures are more accepting of a broader in-group (Kickul, Lester, & Belgio, 2004). This has important implications for the development of discrepancies between employees and their employers as discussed below.

Employees high in collectivism, because they have a more inclusive in-group, are more likely to have more extensive, higher-quality social networks than those who are high in individualism. Furthermore, employees higher in collectivism, because of their desire to maintain harmony and conform, are more sensitive and responsive to their coworkers. They are therefore more likely to construct their PC using cues from their coworkers. As such, we predict that collectivistic employees are more likely to form higher quality relationships with their

coworkers compared to individualistic employees. Furthermore, we predict that the higher quality social networks amongst employees in collectivistic cultures is more likely to reduce the discrepancy between employee and employer perceptions of the PC because of increased coworker communication, compared to employees in individualistic cultures.

*Research Question 3: Are collectivistic employees more likely to form higher quality relationships compared to individualistic employees?*

*Research Question 4: Are discrepancies in perceived obligations of the organization lower with employees high in collectivism compared to employees high in individualism?*

### **Response to Psychological Contract Breach**

In the PC literature, the effects of breach are wide-spread, affecting outcomes ranging from extra-role behavior to attitudes about the workplace. Consequently, it is important to detail when and why certain reactions to PC breach occur. When breach occurs, an employee is motivated to find reasons behind the breach (Robinson & Morrison, 2000; Lester, Kickul, & Bergmann, In Press) and may conduct internal and external searches. These searches include a self-comparison process, whereby an employee asks if he did not receive the resource because he failed to live up to what he should have been (introspection) or failed to live up to another's expectations (external search).

Self-discrepancy theory (Higgins, 1987) provides a solid explanatory backdrop for determining why self-comparisons that stem from breach of one's PC lead to different outcomes, depending on the type of self-comparison invoked. This theory posits that different types of comparisons (i.e., comparing the self to some "idealized" form of the self or comparing the self to some "ought-to-be" form of the self) lead to different emotional outcomes (Higgins, 1987). These emotional outcomes include two separate classes of emotion: agitation-based and dejection-based feelings (Higgins, 1987). Each class of emotion requires different organizational or managerial reactions in order to dissipate (discussed in detail later; Higgins, 1987). Agitation-based emotions are linked to one comparing herself to what she "ought-to-be", and imply fear of punishment or retribution. Dejection-related emotions are linked to one comparing herself to what she "ideally-could-be", and imply depression or disappointment. In sum, self-discrepancy theory allows us to link attributions for breach (based on self-comparisons) to emotional outcomes. This leads us to ask, what prompts an employee to reflect on a particular self-comparison ("ought-to-be" or "ideally-could-be") when breach occurs?

Comparison of the self to an ideal standard (versus an ought standard) depends on whether one is more concerned with comparison of the self to a set of personal goals and wishes rather than being concerned with comparison of the self to duty-bound standards and patterns of behavior (Higgins, 1987). This dichotomy corresponds directly with the cultural variables of individualism and collectivism, two distinct identity orientations. Individualism motivates an employee to pursue self-aggrandizing goals, while collectivism motivates the employee to behave according to prevailing social norms or with concern for interpersonal relationships (Brewer & Chen, 2007; Brickson, 2000). An "ideally-could-be" standard of comparison implies utmost concern with personal goals and wishes (Higgins, 1987), prompting an employee to ask if he did or did not live up to what he could have been, a typical individualistic notion of self-interest, and if this motivated breach. Ideal standards of comparison are thus linked to an individualistic identity orientation, resulting in more dejection-related emotions following breach (Higgins, 1987). In contrast, collectivists are concerned with whether or not they fit in with their groups (e.g., organization), feeling the duty and obligation to conform to other's expectations.

In order to preserve harmony, a key value of the collectivist culture, collectivists will compare oneself to an “ought standard”. Thus, in the face of breach, collectivists are likely to feel they did not live up to their group’s standards and suffer agitation-related emotions as a result.

Exit, voice, loyalty and neglect represent four unique types of outcomes that impact organizational efficiency and functioning (Hirschman, 1970; Rousseau, 1995; Turnley & Feldman, 1999). Linked to specific behaviors such as turnover, absenteeism, and intentional errors on the job (Farrell, 1983), these variables have previously been shown to be outcomes of PC breach (Turnley & Feldman, 1999), but the results have been inconsistent across studies (e.g., Turnley & Feldman, 1999 versus Bunderson, 2001). To reconcile these mixed findings, we propose that the type of emotional response to breach (dejection or agitation) is related to the type of outcome (exit, voice, loyalty, or neglect) of PC breach. Dejection-related emotions will lead to feelings of disappointment and dissatisfaction. Dissatisfaction with the breach of her PC may prompt an employee to voice her concerns about the organization’s failings. In contrast, disappointment as a result of breach may cause the employee to neglect her work as a means to restore equity (Adams, 1965). Agitation-based emotions correspond with feelings of fear of punishment or retribution. Feeling agitation-based emotions may prompt an employee to stay loyal to an organization despite a breach because they do not want to experience further breach. Alternatively, these agitation-based emotions may prompt an employee to leave the organization because she fears worse breach will occur. Because individualists are more likely to feel dejected in the face of PC breach, they are also more likely to exhibit voice or neglect when breach occurs. In contrast, because collectivists feel more agitation-based emotions when breach occurs, they are more likely to remain loyal or leave the organization when breach occurs.

*Research Question 5: How does culture impact employee reactions to organizational failure to fulfill its obligations (i.e., breach)?*

*Research Question 6: Do employees from collectivist cultures compared to those from individualistic cultures respond less negatively when their company fails to fulfill its obligations (i.e., breach)?*

## **IMPORTANCE OF RESEARCH STUDY**

### **Contribution of this Study to Practitioners**

As the business environment becomes increasingly global, organizations are faced with the challenge of managing a culturally diverse workforce. The results of this study are intended to provide managers with information on how cultural values can influence the likelihood that employees perceive PC breach. For instance, if indeed reducing the discrepancy between employees and their employers’ perceptions about the employment relationship reduces the extent to which employees perceive PC breach, the results will point to the importance of encouraging employees to develop high quality relationships with each other. This may include HR programs focused on cross functional team projects and mentoring programs, that encourage interaction, build trust, and promote a shared identity amongst employees. Furthermore, given that employees are likely to share employment related information with each other, it is important that HR practices are consistent across the organization. This is especially true in managing employees high in collectivism where coworkers are more likely to influence employees’ perceptions of the PC. Finally, we also expect that the results of this study will indicate that employees in different cultural contexts respond to perceptions of PC breach differently, an important point for managers to note to effectively manage employer-employee relationships in different cultures. For example, when breach occurs, managers of employees in an individualistic society must manage more dejection-related emotions, including depression

and disappointment. Managers in individualistic contexts will thus be more likely to deal with morale issues and should concentrate management efforts on motivating employees intrinsically.

**Contribution of this Study to Researchers**

The contributions of the foregoing study to cross-cultural PC research are many. First, it investigates the role of social influences on perceptions of PC breach, which aids the understanding of the complex cognitions surrounding perceptions of breach. Also, in integrating the role of culture to the examination of social forces impacting breach, this study provides insight into the variety of ways in which breach can be perceived. Second, studying the outcomes of PC breach as being influenced by the type of self-discrepancy invoked by one’s identity orientation is also a contribution in that it hones in on the idea that individuals can have a variety of reactions to breach and that tailored response to this breach is necessary for effective cross-cultural PC management. Finally, introducing culture as a key lens in the choice in emotional response to breach sheds light on how organizations can come to anticipate, and perhaps alleviate, detrimental responses to breach.

**STATEMENT OF METHOD**

To allow for cross cultural comparisons, the study will be conducted in several countries with varying degrees of individualism (e.g. America and Canada) and collectivism (e.g. China and Mexico). Data will be collected using web-based or pen-and-paper surveys and should take 15-20 minutes to complete. Surveys will be distributed by the researchers or representatives to all members willing to participate in the study and their direct supervisors. From each country or unit, we hope to include a minimum of 200 employee/supervisor dyads. Employees will respond to questions on the survey that measure their individual perceptions of the quality of their relationships with coworkers, psychological contract, degree of individualism/collectivism, emotional response to breach and exit, voice, loyalty and neglect. Supervisors will act as a proxy for the employer and will complete surveys measuring employee’s psychological contract from the employers’ perspective. All measures will be based on established scales.

**QUALIFICATIONS OF THE RESEARCHERS**

**Estimated Costs**

The proposed cost of the project is \$\_\_\_\_\_, which includes:

- Two doctoral research assistants for one semester for Sandy Wayne.....\$ \_\_\_\_\_
- Duplication of surveys, envelopes.....\$ \_\_\_\_\_

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**Figure 1**

