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# **SOCIAL EXCHANGE CONCEPT AS A METHODOLOGICAL FRAMEWORK FOR EMPLOYMENT RELATIONS ANALYSIS**

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## **SOCIAL EXCHANGE CONCEPT AS A METHODOLOGICAL FRAMEWORK FOR EMPLOYMENT RELATIONS ANALYSIS<sup>4</sup>**

The goal of the paper is to suggest the methodological framework of social exchange for analysis of employment relations. Our literature review revealed confusion concerning the definition of social exchange in the context of labor processes and employee-organization relations. The latter are complex and imply all elements of reciprocal and negotiated exchange as well as economic and social forms of exchange. We focus on rules and means of exchange as well as power-dependence relations during the work process. The concept of “psychological contracts” that embodies the social exchange approach in empirical studies is also under consideration. Methodological limitations of current concepts and measures based on exchange methodology are discussed. The authors argue that deepening and specification of key parameters of social exchange approach could be very analytically productive in sociological research of employment relations seen as employee-employer mutual obligations.

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Keywords: social exchange theory, employment relations, social interactions, psychological contracts, employee-organization relations.

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## 1. Introduction

Contemporary social life has been changing for the last 20-30 years, and society and economy development implies individualization of employer-employee relations. Decline of collective bargaining resulted from decrease of trade union power is not the only reason for it. There are several factors like decrease of industrial and manual labor, growth of work place variety, increase of flexible models of employment, raise of the proportion of high qualified professionals in companies' staff. This leads to the necessity of focusing the analysis particularly on personal and subjective employee-employer expectations and obligations.

Earlier theoretical and methodological ideas and approaches in social analysis of employment relations were based on the framework of *Industrial Relations*. Within this framework a number of research questions were investigated including the role of governments and unions in labor relations, negotiation processes, collective agreements between labor and capital. Today, in the light of changes in social and economical life, this framework is less able to describe employment relations. That is why new individual-level approaches based on interaction models which provide opportunities to explore current employment relationship are needed. Exchange theory is considered to be one of these types of approaches. It was recognized as one of the most influential concepts in labor and employment relations (Cropanzano, Mitchell 2005). It is referred to the works of Homans (Homans 1958; Homans 1961), Emerson (Emerson 1962), and Blau (Blau 1964) while the origins of it were elaborated by Durkheim (Durkheim 1996 (1893)), Weber (Zafirovski 2001) and Simmel (Collett 2011). It should be noted that the concept of social *exchange* is wider than the *theory of social exchange* although they are often considered to be synonyms in academic papers.

The *theory of exchange* was performed in the framework of *Employee-Organization Relationship* (EOR) which is focused on the relations between individual and organization. The basic idea of *reciprocity* in relations and the notion of mutual *obligation balance* form the core of this framework. It includes numerous lower-level models like:

- *Equity Theory* – an individual is considered to be rational, he/she estimates the fairness of his/her exchange with the employer; the equity is treated as the key dimension of effective social relationships (Lapalme et al. 2011);
- *Leader-Member Exchange* (LMX) – interpersonal relations between the leader and his followers implies exchange of resources; the perception of value of this exchange is related to important leader and subordinate behavior (Graen, Scandura 1987; Wayne et al. 1997);

- *Organizational Trust* – the concept that reveals the role of trust in employee-organization relationship (Robinson 1996);
- *Perceived Organizational Support* (POS) – an employee estimates the extent to which organization recognizes his/her contribution and cares about his/her well-being; this determines employee behavioral outcomes (Eisenberger et al. 1986; Zagenczyk et al. 2011)
- *Psychological Contract* (PC) – an employee agrees to perform his/her organizational role in exchange for the fulfillment of the promises made by his/her employer (Rousseau, 1995); if a person feels that he/she contributes more than gets back from the company he/she will try to restore the equity by reducing the contribution (Restubog 2008).

Numerous empirical studies founded on this general framework have applied a limited set of theoretical suppositions of the *concept of social exchange*. They were criticized as “they are conceptually related and are consistently predicting similar work attitudes and behaviors” (Tekleab, Chiaburu 2011: 460). The main weakness lies in insufficient theoretical foundation of these studies. Guest defined this situation as “analytical nightmare” (Guest 1998: 650) when authors use different notions to describe the same phenomenon; and every time they change the notion content adapting it to their own research questions. We believe that one of the reasons for it is that only rough ideas of social exchange theory were used while the methodology of exchange was not embodied in employment relations analysis. The analysis of initial statements of these type of research showed that they have widely used the idea of reciprocity in social exchange and its distinction from economic interactions presented by classics while new insights of exchange studies concerning power and resources distribution in different configurations of networks, best strategies for actors in exchange relations, features of sustainable and long-term exchange relations still remain beyond the scope.

To overcome the limitations of the EOR framework we need to develop sociological concept of exchange which will be the foundation for our analysis of relationship between employee and employer. Sociological view can give the answer on the nature, structure and mechanisms of social interaction; sociological approach reveals the regulation on the basis of reciprocity, trust and predictability in relationship. This perspective allows picking out deep tendencies which can't be traced to the individual psychological experience or economic interests of the actors but which consider norms and rules of interactions between actors as well as all the variety of interests.

In summary, taking into account rapid changes of social life caused individualization of employment relations we can assume that interaction perspective will reveal the essence of

relations as the exchange of mutual obligations between employer and employee. The aim of this paper is to analyze conceptions and approaches presented in the literature based on sociological exchange concept considering the limitations indicated above.

## **2. Exchange interactions in employment: rules and means of exchange**

The exchange theory has been actively used for the employment relations research (Molm 2003) but many authors argue that there are some problems both in empirical and in theoretical studies because they lack clarity and integration of key ideas of exchange approach (Cropanzano, Mitchell 2005). One of the aspects concerns the notion of *social exchange*. In the large sense it includes all exchanges that are social in their essence. In that case economic exchange is a part of social one (Kultigyn 1997). In the narrow sense the notion implies interactions where the means of exchange are non-material resources like respect, recognition etc. In the literature this distinction has led to separation of exchange rules from the means of exchange (Cropanzano, Mitchell 2005).

### *The rules of exchange in employment relations*

The term of exchange reveals the main form of agreement as the basis of interaction. There are reciprocal and negotiated exchanges (Molm 2003, Cropanzano, Mitchell 2005). Blau has developed the foundation of exchange methodology which separates exchange based on values, trust and respect from economic transactions. It means that the latter is not social exchange (in the narrow sense). Further these two types of exchange were studied separately; reciprocal exchanges were studied in sociological perspective (Cook, Emerson 1978, Cook, Whitmeyer 1992; Walker et al. 2000) while negotiated exchanges in organizational studies (Eisenberger et al. 1986, Rousseau 1995).

The analysis of this distinction shows that when we talk about social exchange we suggest an *optional* character of the exchange because we have no fixed terms of interaction. In reciprocal exchange donor voluntarily shares resources with recipient without explicit agreement concerning the terms, amount and form of compensation. So the recipient decides when and how to reciprocate and in this case there is a time lag between compensation and reaction on it. But it should be clarified that in the case of inappropriate compensation there will be sanctions for recipient in the form of trust loss, negative reputation, and avoidance of further interaction. The specific character of reciprocal exchange doesn't cancel main features of exchange. Any economic transaction (negotiated exchange) is based on the same rules because in real life impairment of obligation will provoke economical sanctions combined with intangible

consequences like avoidance of further interaction. It turns out that all exchanges between actors have social foundation; most of them are made on credit and imply risk.

Turning back to employment relations two moments should be noted. Firstly, exchange between employee and organization often considers written contract or oral agreements which are the cases of negotiated exchange. But sometimes these relations are based on implicit agreements that are expected by the actors *by default*. They consist of terms that are evident for the actors so they don't need to be clarified; at the same time they are founded on traditions, morale or decencies. Implicit agreements are culture dependent and are based on experience and behavior patterns of society so employee's orientation on implicit agreement is worthwhile only in societies with high morale and stable system of norms and values. Empirical studies of formal and informal employment practices show that formal contract for Russian employees often doesn't determine actual terms of interactions with employer and it always coexists with informal agreements (Barsukova 2003). In western studies implicit agreements were examined mostly within the framework of psychological contract (McLean et al. 1998; King, Bu 2005). So we can make key conclusion that employment relations couldn't be examined as reciprocal or as negotiated exchange only. Interactions between employee and organization imply both rules of exchange therefore we can apply the term of social exchange in large sense.

#### *Means of exchange in employment relations*

Classification of resources included in social exchange underlies separating relational and economical types of exchange (Cropanzano, Mitchell 2005). In empirical studies the means of exchange are used to separate *relational* and *transactional* psychological contracts. This distinction proposed by Rousseau (Rousseau 1995) gained wide recognition among researchers (Millward, Hopkins 1998; Cavanaugh, Noe 1999; Janssens et al. 2003) because it allows to trace different impacts of contract breach on outcomes of the interactions (Restubog 2008). Transactional psychological contract is economic and operational in its essence. Specific employer obligations are high and fair payment, performance-based remuneration. Employees in turn have obligations to exert sufficient efforts to make the job done, to notify in advance about the leave, to keep company's secrecy, to refuse to support company's competitors. Relational contract is socio-emotional in its essence and implies obligations based on trust and long-term interest in relationship. Relational contract for employers includes providing long-term job security, organization support in the case of personal problems, opportunities for training and promotion. In turn employees are expected to work overtime if company needs it, to be committed, to engage in organizational citizenship behaviors.

In general this distinction goes back to disputes about social and economic man in sociology (Radaev 1997) and there are no precise bounds between the two. For example there is no agreement about pension programs: are they should be transactional or relational part of the contract (Zhao et al. 2007). In some cases this problem is solved by empirically made distinction based on factor analysis for the particular sample (e.g. Millward, Hopkins 1998).

For our analysis another accent is more relevant. It is based on the function of exchanged resources. In this case there are *specific* (operational) and *diffusive* (indefinite) resource functions. The former is essential for initiating the interaction, money for employment relations is the case this type. Diffusive resources are aimed to support the exchange relations and to make them more stable. At the same time diffusive resources are more valuable because of their rarity and limited accessibility. As Blau states, compensation with money doesn't imply any further obligations for actors except immediate pay while respect, worship or recognition show a particular quality of relationship between actors and secure the latter.

Diffusive resources for organization in employment relations are employee commitment, readiness to exert additional efforts, ethical behavior, extra-role behavior. In turn fast career promotion, recognition of employee's merits, raise in social status are the examples of diffusive resources for employees. From this standpoint we can analyze profoundly exchange interactions between employer and employee where diffusive resources are considered to be a superstructure. Non-material and moral resources maintain the interaction and impart stability and strategic orientation to relationship.

This functional classification is more relevant for employment relation analysis because reveals the foundation for distinction. Besides it allows broadening a view on this issue by taking into account cultural and social traits of employment environment (features and dynamics of local labor market, social value of employee resources, employment traditions of the society, institutional terms of employment relations etc.). This dimension can influence what is expected to be an operational part of exchange and what is considered to be diffusive in a given society.

As our analysis has shown there is confusion in the literature concerning the definition of the core notion of exchange because means and rules of exchange are difficult to separate. Employment relations are complex and imply all elements of reciprocal and negotiated exchange as well as economic and social forms of exchange. Below we give an analysis of employment relations on the basis of these distinctions taking into consideration social and cultural environment.

### **3. Power in employment exchanges**

As we have stated above one of the main problems of social exchange theory concerning employment relations is insufficient integration of recent progress in exchange theory development. In particular the most important characteristics of exchange process are structural conditions of exchange network (Walker et al. 2000, Bonacich 1998) and power distribution in different exchange structures (Cook, Emerson 1978, Bienenstock, Bonacich 1992, Molm 2003). These two issues are interrelated as it was shown that structure of exchange relations can determine power distribution (Walker et al. 2000).

The problem of power is crucial for understanding the process of exchange. The limitation of all EOR theories is that they treat employment exchange as the interaction between two equitable parties. If we look at the type of connections in employment interactions we will find them exclusive in most cases (Walker et al. 2000) as “subordinates cannot discharge managers in modern work organizations but managers can discharge subordinates” (p. 325). Organizational studies literature stresses the question about who should be considered to be the representative of *employer* in the analysis of employment relations. At least three sides in the company influence the character of the employment relations. The first is a supervisor or a leader of employee (Tekleab, Taylor 2003) as they personally interact with employees. But supervisor often is not free in taking decisions. HR specialists are the second side of interaction as they develop organizational policies and support employment relations (Sims 1994). And finally, organization as a whole and as a collective actor is often included in the theoretical models (Wang et al. 2003). Taking this aspect into account the type of connection in employment interactions depends on the structure and status of these three parties. This means that researchers should include leaders, HR practices and social environment in the organization in the theoretical models as the determinants of the relationship between employee and employer.

Then, the availability of alternative sources of exchange means determines the distribution of power in exchange network (Molm 2003, Walker et al. 2000). The degree of employee's dependence on employer is determined by the extent to which resources possessed by employee are valuable and rare (Balabanova 2006). As employer possesses more valuable resources than employees it is relatively easier for employer to replace the employee than to find new job for the latter.

In developed countries employees are more or less protected from employer's arbitrary behavior; legislative restrictions define terms of employment and employer obligations. Hence power distribution depends not only on exchange network configuration and actors resources but on social institutes, cultural traits of society and features of labor market. It was shown that the prevalence of employer in employment relations occurs much more often in Russian labor market (Balabanova 2009).



Therefore employer is more powerful in employment relations as he is in the center on the exchange network; it is evident that he defines what compensation should be made for the employee's work. This makes us expect the asymmetry of outcomes in employment relations.

#### **4. Social exchange theory applied: Psychological Contract concept**

To our opinion, among EOR "sub-theories", there is only one that applies social exchange methodology more or less consistently. It is the concept of psychological contract which has great potential for integration of key elements that we have defined above. It should be noted that this concept is one of the most popular among researches using exchange approach to employment relations (Lapalme et al. 2011). We use the psychological contract framework as the basis for integration of the main elements and factors of social exchange in employment relations.

The term of psychological contract was offered by Argyris in 1960s (Argyris 1960. *Ref.:* Guest 2004). Further Rousseau revealed the notion and presented theoretical and empirical research of this phenomenon (Rousseau 1995); her paper became the starting point for many authors. There are a lot of different definitions of the notion:

1. "an individual's beliefs regarding the terms and conditions of a reciprocal exchange agreement between that focal person and another party" (Rousseau 1989: 123);
2. "a form of employee/organization exchange which focuses on employee perceptions of mutual obligations between employee and employer" (Shore, Barksdale 1998: 731);
3. "an idiosyncratic set of reciprocal expectations held by employees concerning their obligations (i.e., what they will do for the employer) and their entitlements (i.e., what they expect to receive in return)" (McLean et al. 1998: 698);
4. "the perceptions of both parties of employment relationship – organization and individual – of the reciprocal promises and obligations implied in that relationship" (Guest, Conway 2002: 22);
5. "an exchange agreement of promises and contributions between two parties, an employee and an employer. It contains an individual's belief regarding the mutual obligations of both parties to the relationship" (Janssens et al. 2003: 1350);
6. "an implicit contract between an individual and his/her organization, which specifies the reciprocal obligations between an individual and the organization about what each expects to give and receive from the other in their exchange relationship" (King, Bu 2005: 48).
7. "an unwritten contract that embodies the expectations that an organization and an

individual have of the other in terms of their future relationship and outcomes” (Inkson, King 2011: 42).

To our opinion, the definition which is the closest to the essence of the psychological contract and the most appropriate for sociological analysis of employment relations is: *subjective perceptions, beliefs and ideas of employer and employee concerning key terms of their interaction on the basis of reciprocity including fixed agreements (written or unwritten) and implicit mutual obligations and expectations*. Traditional definitions of the concept were enlarged and enriched by adding relevant features and elements of social exchange concept.

Different forms and means of exchange in employment relations are perceived by two parties so psychological contract is a concept with broad content. It should be noted that the notion *contract* here considers a wide range of terms and conditions of exchange; it isn't limited only by mutual agreements and obligations. The subjective nature of psychological contract was noted by many researchers (Robinson 1996; Kalleberg, Rogues 2000; Guest 2004; King, Bu 2005; Tomprou, Nikolaou 2011). Taking into account main reasons for critics including neglect of macro social processes (Bal et al. 2011) and simplification of complex social exchange (Guest 1998; Inkson, King 2011) we propose to include social and economic conditions of employment environment as the factors of psychological contract. This allows us to treat the system of beliefs and to explore systematic and common elements that are relevant for groups of employees. Besides the study of real practices, processes and relations in organization often is substituted by evaluating personal opinions of people surveyed (Efendiev, Balabanova 2012). Study of real practices can be the way to overcome this *methodological trap* when we analyze what employees *think* and *feel* about their work but can't say anything about *actual conditions* of their work-life.

Thereby taking the wide definition of psychological contract, considering broad social and economical factors combined with studying of real organizational practices can make the framework of psychological contract more useful and profound for employment relationship analysis. This approach also includes employer as one of the party of employment exchange and the image of relationship becomes full and clear. This makes the basis for integrating organizational studies and ideas of power distribution and configuration of exchange networks applying the methodology of the social exchange concept.

#### *Dynamics of employment interaction in the light of psychological contract*

The profound analysis of exchange interactions between employer and employee requires describing several issues: how parties come to an agreement about work, how different types of resources are combined in interactions, what are the main determinants of exchange process development. This can be made by analyzing the process of psychological contract development.

1. The first stage of this process is *shaping the expectations*. Every exchange starts with expectation about contribution and rewards. For the first glance personal interests and ambitions determine what employee might expect to get in exchange from employer. But the basis of personal interests and ambitions lies in social standards and norms that were formed by experience and social environment. This makes the accent on the expectations that are more valuable for scientific analysis than personal perceptions because it addresses to a wider range of social, economical and legislative issues. For example, employee's expectations about the level of salary are based on the average level of payment for the certain qualification on the local labor market, while his wishes about remuneration can come from his needs. Employer's expectations are built upon the situation on the local labor market, the quality of available human resources and the average market pay for the employees.

It is argued that employee has numerous expectations before entering the company, and just few of them are conscious (Rousseau 1989; King, Bu 2005). Here the difference between transactional and relational psychological contracts starts to matter. Newcomers often understand what exactly companies expect from them concerning their *functional role* without clear presentation about what is expected *besides* in-role performance (Kotter 1973). Some of the authors noted that the role of human resource department on this stage is very high as it can help to get full information during the selection process and to reject irrelevant expectations during adaptation and socialization processes (Sims 1994; Zagenczyk et al. 2011).

On this stage the demands of the parties are driven by social and economical environment. The process of negotiation implies employee's interaction with several representatives of the company so that initial employment agreement is developed. While on the subject of resources it is argued that operational means of exchange are involved in the negotiation and play dominant role.

The determinants of negotiation power of an actor mainly are the resources available for exchange. As we have stated above employees very often have fewer opportunities to negotiate because of employers' predominance in conditions of Russian labor market. This makes us to take into account the possibility of inequality in resources and consequently power imbalance of employee and employer. In some degree these questions induced authors to examine the issue of *psychological contract replicability*; it is employee's perceptions concerning the uniqueness of his resources for employer so that it determines what employee expects from his employer (Ng, Feldman 2008).

2. The second stage is *interaction*. Expectations become embodied on this stage through practical exchange interactions between employee and supervisors, colleagues and other representatives of the company. Unfortunately these processes are eliminated from empirical

studies and we can't say much about them. While the study of psychological contract is the study of employee's perceptions we can only suppose how employer perceives these interactions. The research of actual practices used on this stage is of primary importance. Human resource practices and leadership behavior define what resources are provided for the employees. We suppose that the prevalence of employer in employment relationship finds its implementation on this stage. Strategic means of exchange may be used by employer to build stable relationships with employees. In the case of short-term planning employer is oriented on operational means of exchange and diffusive resources provided by employees won't be reciprocated.

3. The third stage is *exchange outcome evaluation*. Here the parties evaluate what expectations were realized, what resources were got and what further actions should be undertaken. One of the most interesting research directions concerns the situation of unmet expectations; it is so-called *psychological contract breach (violation)*. Several authors have stated that breach is related to *cognitive process* of judging whether the employer fulfills his promises while violation concerns *emotional reaction* on unmet expectations (Parzefall, Coyle-Shapiro 2011).

The most important research question is the actual balance of resources provided by employer and employee. One of the empirical studies has found out that 55 per cent of employees have faced the situation of unmet employer obligations (Robinson, Rousseau 1994). Researchers have introduced the notion of working-life quality considering the level of perceived organizational support, organizational justice, mutual trust and some others (Restubog 2008, Parzefall, Coyle-Shapiro 2011). But all these studies examine the output of exchange relations just indirectly without profound analysis of losses and benefits of the parties.

4. The fourth stage is *expectations' change and response*. Changing expectations is the antecedent of choice to continue the relationship or to end it. According to some of the studies employee's beliefs about mutual obligations are changing during the first few years of work (Robinson et al. 1994). Employee's experience in the organization, observable patterns of colleagues' and supervisor's behavior, remuneration and appraisal procedures implemented in the organization, organizational changes influence employee's expectations (Rousseau, Tijoriwala 1998; Freese et al. 2011). It was noted that this process is endless (Robinson, Rousseau 1994) so the stages presented could be the framework to explain employee's life in the organization.

The accent of psychological contract framework on perceptions of employee has led to the idea that employees reciprocate positive relations from the part of employer (Coyle-Shapiro, Kessler 2003). In general it might be stated that positive practices is related to positive behavior

and vice versa. But as the reactions of employer have been examined without empirical research we have weak presentation of interaction at this stage.

The most valuable proposition in the psychological contract concept reveals negative employee reactions on the perception of unmet employer promises or obligations. Now it is considered to be the fact and it is used as the prerequisite in most empirical studies. It was proved that if employee feels that the employer promises are breached, following consequences occur:

- lowering of labor efforts and role performance indicators (Zhao et al. 2007);
- decrease of organizational commitment, job satisfaction and identification (Robinson et al. 1994; Robinson, Rousseau 1994; Zhao et al. 2007; Suazo 2009);
- raise of mistrust (Robinson, Rousseau 1994; Hui et al. 2004; Zhao et al. 2007);
- decrease of organizational citizenship behavior and proactive behavior (Hui et al. 2004; Zhao et al. 2007; Suazo 2009; Bal et al. 2011);
- lowering of cooperative employment relations and raise of absenteeism (Deery et al. 2006);
- increase of counterproductive workplace behaviors (thefts, sabotage, misuse of information, time and resources, poor attendance and low-quality work, inappropriate verbal actions) (Chao et al. 2011);
- increase of intentions to leave (Robinson, Rousseau 1994; Deery et al. 2006; Zhao et al. 2007; Suazo 2009).

Another important issue concerns the attribution of psychological contract breach; it is supposed that if employee believes that employer had no opportunities to fulfill his obligations (because of external factors or misunderstanding) the former has less intention to react on this contract breach (Chao et al. 2011).

One of the unexpected results implies the fact that employees have strong reactions on psychological contract breach while the fulfillment of employer's promises doesn't always lead to positive attributions and behaviors (Conway et al. 2011). This phenomenon was also found in sociological and psychological research fields; it was shown that people intend to react strongly on negative events while positive events are often ignored (Baumeister et al. 2001).

In summary we can state that the forth stage of psychological contract development is one of the most difficult to present but it determines the actual behavior of all parties. Recent empirical studies were aimed to know more about fulfillment and breach of different types of the psychological contracts: how these types of breach influence behavioral consequences; what

qualities of employees determine strong reactions on contract breach; what factors strengthen or weaken the relation between contract breach and employee's attitudes and behavior.

The research on the relation of individual characteristics, values, attributes and employee's perceptions of the "quality of employee-employer relations" has shown that the reactions on psychological contract breach are weaker if employees are "conscious" (in terms of Big-5 Model [McCrae, Costa 1987]), accept high power distance (in Hofstede's terms [Hofstede 1984]), have opportunities for training, are highly engaged and have high value of perceived organizational support, trust, and perceived organizational justice. And vice versa: those who perceive employment relations of low quality in the case of psychological contract breach are more disposed to depressive state, high intentions to leave, decrease of job performance and role performance and increase of counterproductive behaviors (Orvis et al. 2008; Jensen et al. 2010; Chao et al. 2011; Stoner, Gallagher 2010; Parzefall, Coyle-Shapiro 2011; Zagenczyk et al. 2011; Restubog et al. 2008; Dulac et al. 2008; Conway, Coyle-Shapiro 2012; Restubog 2011; Proost et al. 2012). One the Portuguese research showed that employees with high relational psychological contract are more satisfied and more often demonstrate organizational citizenship behavior than employees oriented on transactional psychological contract (Chambel 2011).

This model of psychological contract development allows to identify main processes and factors that are involved in employment relationships. Below we summarize the factors and features of mutual obligation and expectations considering general model of employment relations within the social exchange theory.

#### *Social and economical determinants of exchange relationship*

One of the most important research questions applies to factors and determinants of mutual obligations and expectations. Are they common for some groups of employees and employers? As the framework of psychological contract has limited ability to include all these issues because of its accent on perceptions of employees we apply to sociological view which addresses to typical and repeated characteristics of the process so basic social and economical conditions of mutual obligations are revealed.

As we have noted above the power distribution between employer and employee depends on the resources used in exchange interaction. In general model of employment relations age, qualification, work experience, social capital are considered to be employee resources or traits that influence the negotiation power. In this case employer's resources are economic state of the company, level of payments and other benefits provided, actual career opportunities, employer brand on the labor market, stability of employment provided and etc.

One set of empirical research is devoted to personal traits of employees. It was shown that women are more exacting concerning employment relations except participation in decision-making; younger employees are less tolerant regarding work-life balance; aged employees are more committed to loyalty in exchange for long term employment guarantees; employees with high level of education in general have more expectations than less educated (Bellou 2009).

The terms of employment usually defined by the employer influences the ratio between transactional and relational terms; for example, temporary workers have less relational obligations and more transactional compared with permanent workers (Chambel 2011). It was explained that permanent employees are disposed to take more obligations because of affective commitment; they are encouraged by investments while temporary employees have less opportunities to negotiate or to enlarge the contract (Isaksson et al. 2010).

But to understand the essence of power distribution we should take into account external factors like cultural traits. As we have argued above cultural characteristics should be considered in order to complete the picture of employment relations. The cultural context is poor developed in social exchange theory so there are few empirical studies devoted to cultural determinants in employment relations made within the exchange framework. Main elements of the interaction process (trust, norm of reciprocity, values of resources) depend on culture.

Interaction perspective acknowledges the necessity of common understanding of criteria of utility for exchange and culture provides this common sense for the parties in the interaction process. Besides the ways to restore the balance of exchange are determined by the behavior patterns and decencies that are the manifestation of cultural norms and values of the society. The influence of culture also covers organizational and social context of employment relations. For example the idea of initial expectations is based on cultural and social norms and some cross-cultural empirical studies of exchange relations reveal norms, values and social context that have an influence on them (Dabos, Rousseau 2004; Hui et al. 2004; King, Bu 2005). Several studies were made in China (Farh et al. 2007), India (Kamdar et al. 2006), Korea (Shore et al. 2006) showing that there is a significant relationship between exchange and cultural traits. One of the most interesting issues is that there are psychological contract terms that are common within specific macro social environment (Thomas et al. 2010). There was a hypothesis that relational psychological contract is more significant in eastern cultures while transactional is more typical for western cultures (Shore et al. 2009: 298). It is considered that collectivistic cultures are less disposed to overestimation than individualistic (Thomas et al. 2003; Shore, Coyle-Shapiro 2003). In the models of psychological contract development the role of traditions that determine employee's perceptions is very high (Thomas et al. 2003; Thomas et al. 2010). In general,

literature research shows that social context matters but the scope and quality of empirical results demand further investigation.

Another contingency factor is the demand on the labor market which influences the ratio between contribution and compensation acceptable for employee. The availability of appropriate human resources on the market influence the company's behavior on the labor market: recruiting policies, orientation on retaining employees, developing competitive advantages relevant to local labor market. All these features can be treated as the configuration of exchange network which also determines the power distribution in employment relations. If the supply of labor is sufficient for the company's demands this means that employer is *in high-power position* while the connection type of employment relations is exclusive (Walker et al. 2000). But if job seekers find numerous relevant vacancies they can gain some advantage in the negotiations.

#### *Balance in employment relations*

According to the ideas of Homans and Blau, stable relations imply balance of contributions and compensation in exchange; so it is argued that imbalanced exchanges are of short duration and unstable (Robinson et al. 1994; Shore, Barksdale 1998). This issue is very important for understanding behavioral outcomes of exchange relations in employment. Here several moments should be clarified.

Firstly, each part of exchange relations intent to maximize his benefits and to minimize his contribution. In this case all types of benefits should be considered and weighed. Then, actor estimates total reward that implies all valuable resources including future benefits and access to possible resources. Secondly, the notion of the level of mutual obligations arises. The combination of the level ("the degree to which the employer and employee are perceived to be obligated") and balance ("the extent to which there is balance, or mutuality in employee and employer obligations") in mutual obligations produces four types of exchange relations: 1) mutual high obligations, 2) mutual low obligations, 3) employee over-obligation, 4) employee under-obligation (Shore, Barksdale 1998: 734). In this research it was found that the high level of mutual obligations leads to higher organizational support, better career perspectives, higher affective commitment, and lower intention to leave. Later it was stated that strong mutual obligations, that is intensive exchange is related to higher level of company performance, higher employee contribution through higher level of commitment, lower intention to leave and frequent organizational behavior (Wang et al. 2003; Shore, Coyle-Shapiro 2003). In other studies it was shown that there is a relationship between overinvestment from the part of employer and emotional commitment, and citizenship behavior (Tsui et al. 1997). Summing up this set of research, in terms of social effectiveness overinvestment is more significant and this requires



including strategic resources in the exchange. For the economic performance underinvestment is more relevant.

## 5. Conclusion

The literature analysis allows us to make a conclusion about underestimated potential of the social exchange theory for studying employment relations. We argue that the dominance of psychological and managerial approaches impedes the development of social exchange methodology application for the employment relations. The limitations considered in the paper could be overcome by implementing sociological approach to exchange theory when employment relations are examined as the development of mutual obligations of employee and employer. In theoretical view the analysis of exchange structure and mechanisms of employment relations, based on the notions of reciprocity, balance and predictability can forward the empirical studies. It should be noted that investigation of power relations in employment is not considered by researchers so the potential of social exchange theory hadn't been fulfilled. One of the most perspective views is to integrate key exchange characteristics with methodology of employment relations. For this way the accent on perceptions and subjective framework should be replaced by the research focus on observable practices and facts in employment relations.

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