Dual roles in psychological contracts: When managers take both agent and principal roles

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ABSTRACT

Departing from the long-espoused assumption that managers act only as agents in employees' psychological contract with the organization, this paper asserts that in addition to the agent role, some managers, in an attempt to further their own self-interests, form and enact their own psychological contracts as principals with select employees. The combination of these dual roles often yields unacknowledged but significantly negative consequences for the employing organizations, the managers who choose a principal role, and the select employees with whom they form a psychological contract. Drawing upon agency, psychological contract, and social exchange theories, we develop the distinctive characteristics of the agent vs. principal roles, identify the antecedents that motivate managers to assume a principal role, develop four archetypes for combining the dual roles, and suggest the potentially harmful consequences for the above three parties mentioned. The paper concludes with theoretical and practical implications and suggestions for future research.

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1. Introduction

Within the last 25 years, research on the psychological contract—defined as individual beliefs shaped by the organization regarding the terms of an exchange relationship between individuals and their organization (Rousseau, 1995)—has generated a significant body of knowledge. Important findings include the nature of obligations operating between parties (Montes & Irving, 2008), antecedents and consequences of contract violations (Deery, Iverson, & Walsh, 2006; Robinson & Morrison, 2000; Tekleab, Takeuchi, & Taylor, 2005), the impact of organizational change on the contract (Bellou, 2007; Cavanaugh & Noe, 1999; Turnley & Feldman, 1998), and more recently, the substance and effects of idiosyncratic contracts (I-Deals) between highly valued individual workers and their organization (Lei, Rousseau, & Chang, 2009; Rousseau, 2004; Rousseau, Ho, & Greenberg, 2006). Despite the considerable body of knowledge accumulated in this field, little theory and research to date has examined the roles immediate managers play in employees' psychological contracts.

We choose immediate managers (i.e. individuals at every level of the organization who have direct reports) to focus on because they have been shown to develop high levels of physical and psychological closeness with their direct employees through bonds that begin in recruitment and grow during their supervision of employees' day-to-day tasks. These bonds noticeably affect employees' perceptions of their psychological contracts (Bass, 1990; Krackhardt, McKenna, Porter, & Steers, 1981). The extant psychological contract literature has tended to treat immediate managers exclusively as key agents representing the interests of organizations with respect to the psychological contract between employees and organizations (e.g.,
Conway & Briner, 2002; Lester, Turnley, Bloodgood, & Bolino, 2002; Robinson & Morrison, 2000; Tekleab & Taylor, 2003). However, several scholars have acknowledged that agents do not always act in the organization's best interests with respect to the terms of employees' psychological contract. For example, Rousseau (1995) proposed two types of contract makers—principals making contracts for themselves and agents acting for principals—and noted that agents (managers) may make commitments that are inconsistent with the principal's (the organization's) true intent. That is: “Is a manager who promises career development to a recruit speaking for himself or for the organization?” (Rousseau, 1995, p.62). Similarly, Coyle-Shapiro and Shore (2007) argued that “interests other than those of the organization may exert an important influence on the extent to which managers enact their role as organizational agents, for example, may make a promotion or hiring decision that is more aligned with their own self-interest than with the best interests of the organization” (2007, p.168).

These arguments indicate that relatively little research attention has been devoted to managers’ tendency to maximize their self-interests while acting as the organization’s agent in forming and implementing employees’ psychological contract with the organization. This omission in the psychological contract literature is particularly noteworthy because many organizational behavior scholars have discussed the prevalence of self-interested behaviors in organizations, and have suggested mechanisms to promote cooperative behaviors (e.g., Grant & Patil, 2012; Meglino & Korsgaard, 2004). In light of this omission, we argue that some managers enact both the role of agent in employees’ psychological contract with the organization and the role of a principal in forming their own psychological contract with chosen employees in order to pursue their personal agenda. Our conceptualization of the dual roles played by managers is an important addition to the psychological contract literature because it more accurately portrays the complex nature of “contract making” in a real world where managers increasingly possess considerable latitude in influencing employees’ psychological contract with the organization (Rousseau, 1995, 2004; Rousseau et al., 2006) and where organizations find it difficult to monitor the behavior of the managers supposedly representing them in contract discussions (Eisenhardt, 1989).

Building on agency and social exchange theories to develop the theoretical framework of managers’ dual roles within the psychological contract literature, we make several primary contributions to the existing literature. First, we challenge current thinking on managers’ role in employees’ psychological contract by drawing upon relevant theories as well as illustrative case examples. Second, we extend psychological contract theory by identifying the antecedents influencing managers’ assumption of a principal role by forming their own psychological contracts with select employees. Further, we identify the different ways in which these managers combine the dual roles and suggest the potentially harmful consequences for all three parties—organizations, managers, and affected employees. Third, we call attention to the inherently gray areas in the psychological contract by offering a more complicated, but also more realistic, view of managers’ roles vis-a-vis their employees’ psychological contracts. Fourth, we draw on our dual role proposals to offer a supplementary explanation for employees’ frequent reports of contract breaches in previous studies. Finally, we suggest human resource management interventions for constraining managers’ assumption of a principal role and fruitful research directions for empirical studies of this topic. We begin to develop these contributions by examining the next section on the nature of managers’ dual roles.

2. The nature of managers’ dual roles

2.1. Agency theory

Agency theory focuses on the relationship between two parties—one, the principal who delegates work to another, the agent, who then performs the delegated work (Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976). According to this theory, when principal and agent are involved in a collaborative relationship, two common problems are likely to occur: (1) agency conflict, where the interests of the principal and the agent diverge, making it increasingly difficult for the agent to remain committed to a role that is not perceived as meeting his/her own interests; and (2) information asymmetries, where it is difficult or expensive for the principal to verify whether the agent is actually fulfilling assigned duties and requirements. Divergent interests and information asymmetries contribute to the agency problem, whereby the agent does not always act in the best interests of the principal, but rather shirks his/her duties as agent or appropriates perquisites out of the firm’s resources for his/her own consumption (Jensen & Meckling, 1976). Solutions to the agency problem include (1) the alignment of principal and agent interests through providing incentives to the agent in order to transfer the risk of outcome uncertainty to the agent (who tends to be more risk-averse than the principal because agents are unable to diversify their employment while principals are capable of diversifying their investments) and (2) monitoring his/her behaviors through formal and informal information system (e.g., budgeting, management by objectives, and boards of directors, managerial supervision) to curb agent opportunism.

Researchers in the field of finance and economics, from which agency theory originated, have predominately examined the relationship between firm owners and top executives (e.g., Fama, 1980; Fama & Jensen, 1983; Hill & Phan, 1991; Jensen & Meckling, 1976). This is partly because they viewed the agency problem as one stemming from the separation of ownership and management in firms where agents who make important decisions often do not bear a substantial share of the firm’s equity (e.g., Fama & Jensen, 1983; Jensen & Meckling, 1976). Nevertheless, the seminal work by Jensen and Meckling (1976) noted that “the problem of inducing an agent to behave as if he were maximizing the principal’s welfare is quite general. It exists in all organizations and in all cooperative efforts at every level of management in firms.” (p.6). Thus, we note that the principal-agent relationship can be found in any situation, ranging from outside equity holder-entrepreneur (i.e., owner-manager) to top management-managers with no equity, where a principal depends on an agent to fulfill his/her duty. Hence, our ability to apply the framework of the agency problem to immediate managers working at various levels within the organization is not constrained by the extent to which they hold ownership in the firm.

The generality of the principal-agent framework (e.g., “the generality of the agency problem”, Jensen & Meckling, 1976, p. 6; “the ubiquitous agency relationship”, Eisenhardt, 1988, p.58) has allowed management scholars to extend agency theory to more diverse...
forms of principal–agent relationships, such as CEO and top management team, executives and managers, and the employing organization and employees (e.g., Cruz, Gómez-Mejia, & Becerra, 2010; Eisenhardt, 1988; Gómez-Mejia & Balkin, 1992; Sanders & Carpenter, 1998; Tosi, Katz, & Gomez-Mejia, 1997), thereby including middle-level managers (Stroh, Brett, Baumann, & Reilly, 1996) and front-line employees (Eisenhardt, 1988) in their analyses. For example, Eisenhardt (1988) focused on the relationship between sales representatives (agents) and store managers (principals) in examining compensation strategies in retail stores. Consistent with this stream of research, in the current work, we apply the principal–agent framework to the immediate manager–employee relationship in order to capture a different, potentially significant role, sometimes assumed by these managers, namely the role of principals, who make and enact their own psychological contracts with select employees (see Section 2.3 for greater detail). In the following sections, we first review how managers have been depicted in the psychological contract literature and then introduce the principal role that some managers play in the psychological contract.

2.2. Psychological contract theory and managers as agents

Numerous studies have shown that employees’ immediate managers are a central force in shaping the individuals’ experience at work (e.g., Bass, 1990; Kozlowski & Doherty, 1989; Krackhardt et al., 1981). Consistent with the widespread acceptance of immediate managers’ significant impact on employees’ work roles as well as their attitudes toward the organization, the psychological contract literature has explicitly or implicitly treated immediate managers as the organization’s primary agent in its psychological contracts with their employees. Further, because an organization cannot directly communicate and negotiate with employees, employees’ perceptions of their psychological contract with the organization are likely to be based upon information and cues offered by their immediate managers (Marks, 2001). Thus, Shore and Tetrick (1994) stated that “the employee is … likely to view the manager as the chief agent for establishing and maintaining the psychological contract”. In fact, many researchers, working under the premise that immediate managers (as agents) faithfully represent the organization’s (principal) interests, have used immediate managers’ perceptions of their employees’ psychological contract to capture the organization’s perspective on the contract (e.g., Conway & Briner, 2002; Lester et al., 2002; Robinson & Morrison, 2000; Tekleab & Taylor, 2003).

While acknowledging immediate managers’ role as primary agents for the organization in implementing its psychological contract, however, we also disapprove the notion that immediate managers function exclusively as organizational agents, arguing it is far too narrow and simplistic. In support of our position, we note that several psychological contract researchers have expressed doubt about the validity of the view of managers as agents who faithfully represent the organization’s best interests. For example, Rousseau (1995) conceptually argued that managers who are supposed to work as agents may make commitments that are inconsistent with the principal’s (organization’s) true intent. Going a step further, Haller and James (1997) empirically examined tensions in managers’ roles as both self-interested employee and agent, supposedly working towards the interests of the organization. Examining a sample of middle-managers involved in organizational changes over a two year period, they showed that the managers subordinated their obligations as organizational agent to employees to further their own self-interests, often breaching employees’ psychological contracts in the process. These findings suggest the absence of a theoretical framework that distinguishes between the different roles that managers may hold (Conway & Briner, 2002; Lester et al., 2002; Robinson & Morrison, 2000; Tekleab & Taylor, 2003).

To summarize, this paper examines cases where managers hold dual roles vis-a-vis the organization and its employees: (1) that of an agent representing the organization in forming and implementing the psychological contracts of all direct employees (including select employees); and (2) that of a principal who makes and enacts a personalized psychological contract with select employees for the purpose of satisfying his/her own self-interests.

2.3. Managers as principals

Extending agency theory predictions to the case of immediate managers’ (agents’) relationship with their organization (principal), we assert that in a situation characterized by divergent interests and information asymmetries, some managers will tend to form a psychological contract for themselves (as principals), directly with “select” employees (agents). This occurs because, no matter how clever or resourceful, these managers often cannot carry out both their personal and their work agendas without some assistance from their employees. When these psychological contracts between managers and employees draw upon the organization’s resources, such as work time, money, promotions, that are not guided and authorized by its HR policies and practices and are instead counter to its interests, we argue that the managers involved are acting as principals (hereafter termed, principal-managers).

Principal-managers judiciously identify the select employees with whom they wish to partner, weighing heavily the individuals’ possession of capabilities and resources that can further the managers’ agenda. These include specific knowledge, information, skills, abilities, and social networks that are all conducive to accomplishing the manager’s personal goals and interests. Principal-managers also will consider the trustworthiness and loyalty of potential select employees because they (the principal-managers) need to keep this contract secret from the organization. Employees are generally vulnerable to their managers’ attempts to induce them to form the desired psychological contract because they are dependent on the manager’s power to control salaries, assignments, performance appraisals, career opportunities, and other inducements (Bacharach & Lawler, 1980; Sparrowe & Liden, 1997).

Furthermore, prior studies have shown that managers’ influence on employee attitudes and behaviors consistently emerges as stronger than that of the organization. Eisenberger, Stinglhamber, Vandenberge, Sucharski, and Rhoades (2002) found, across three different studies, that employee perceptions of supervisory support were higher than their perceptions of organizational support.
Similarly, Maertz, Griffeth, Campbell, and Allen (2007) showed that supervisory support had a direct effect on employees’ turnover intentions and was not mediated by their perceived level of organizational support. Based on this evidence, we assert that the influence immediate managers have in general on their employees’ attitudes and behaviors assists them in taking a principal role whereby they make and enact psychological contracts with select employees to promote the managers’ own self-interests. Additionally, it is important to note that most organizations will find it difficult to identify principal-managers’ behavior without incurring high administrative costs. This is because managers’ assigned tasks tend to be characterized by both low programrability (i.e., the extent to which appropriate behavior by an agent can be specified in advance) and low outcome measurability (i.e., the difficulty in assessing outcomes of importance because they require a long time to complete, or involve joint or team efforts; Eisenhardt, 1988, 1989). Ironically, sometimes, the organization may make it even easier for managers to enact their principal roles by attempting to reduce the difficulty of enacting their agent roles through providing easy access to valuable resources and engaging in relatively low levels of monitoring.

When explaining the process of making a contract between a principal-manager and select employees, leader-member exchange (LMX) theory is useful. LMX theory suggests that managers develop differentiated relationships with their employees depending on whether the individuals fall into in-group or out-groups. In-group employees tend to possess similar demographics, values, interests, and goals to those held by the manager (Dansereau, Graen, & Haga, 1975; Graen & Scandura, 1987) and their relationship with their managers is characterized by strong loyalty, trust, emotional attachment (Graen & Uhl-Bien, 1995), and high levels of communication and negotiating latitude (Graen & Scandura, 1987). For this reason, we propose that principal-managers will first attempt to build a high-quality exchange relationship with high-potential select employees or approach those with whom they already have a high-quality exchange relationship, in order to make successful recruitment easier. Further, because principal-managers wish to capitalize on employees’ capabilities to achieve their own self-interests while keeping the contract with select employees secret from the organization, they are likely to prefer to work with employees who are already in-group members, and thus, who trust, are loyal to, and feel indebted to the manager for benefits they have received in the past (Duarte, Goodson, & Klich, 1993, 1994; Graen & Scandura, 1987; Wakabayashi, Graen, Graen, & Graen, 1988). As a result, principal-managers are more likely to create a psychological contract with select employees who are in-group, rather than out-group members.

Please note that we limit our discussion to cases where managers intentionally and primarily cater to their own interests that are often at odds with those of the organization. Some might argue that managers’ act of taking a principal role can be viewed as exercising political skill1 (i.e., the ability to use his/her knowledge of others to enhance personal and/or organizational objectives, Ferris et al., 2007). However, prior research has shown that managers’ political skill is generally associated with positive outcomes such as increased reputation, higher performance ratings, and enhanced employee work behaviors through their effective influence over others (Bing, Davison, Minor, Novicevic, & Frink, 2011; Ferris et al., 2007), while we contend (in a later section) that principal-managers tend to generate negative outcomes for their employees, the organization, and themselves through their unauthorized use of resources and/or their principal contracts. Further, principal-managers do not necessarily possess the same type of positive qualities that are found in politically skilled people (e.g., social astuteness, interpersonal influence, and networking ability, Ferris et al., 2007). Finally, the current literature provides no evidence that managers using political skill create self-interested psychological contracts that are counter to the organization’s interest, with their select employees.

In concluding this section on principal-managers, we believe it important to emphasize that we do not propose that all managers will enact the role of principal in making psychological contract with select employees. Rather, we expect that the majority of managers will ignore opportunities to pursue their own self-interests by inappropriately using the organization’s resources, because they are simply not interested in doing so, believe such behavior to be unethical in light of their existing obligations as organizational agent, and/or are quite cognizant that enacting the principal role incurs a relatively high level of risk that the organization will monitor their actions and detect violations for which they will be disciplined or even dismissed. As a result, we believe that most managers will choose not to take a principal role by forming a psychological contract with select employees. Although the prevalence of managers’ acting as principals has not been empirically investigated to date, drawing from prior research on managers’ opportunistic or deviant (and sometimes abusive) behaviors (e.g., Hallier & James, 1997; Tepper, Duffy, Henle, & Lambert, 2006; Tosi, Brownlee, Silva, & Katz, 2003), we speculate that this is a low-base rate phenomenon as are cases of other types of negative manager behaviors. However, even if the frequency of managers’ acting as principals is low, its harmful consequences may still be substantial. For example, abusive supervisory behavior has been shown to affect only 13.6% of U.S. workers, but nevertheless costs organizations $23.8 billion annually due to absenteeism, turnover, and decreased productivity (Tepper et al., 2006).

2.4. Differences between principal contracts and agent contracts

Because dual-role managers hold principal contracts with select employees while also acting as the organization’s representative in its psychological contracts with all direct employees, it is important to consider how these contracts differ from each other. First, the primary beneficiaries of employees’ psychological contracts with principal-managers are the managers themselves. By definition, the contract is established primarily for the purpose of satisfying managers’ own personal interests, but it also must sufficiently satisfy employees’ interests in order to motivate them to become a party to another contract with their manager. Hence, the contract likely will vary substantially across managers due to their preferred objectives and needs. Conversely, employees’ psychological contract with the organization includes obligations around the contributions expected by the organization and the inducements desired by the employees, and is more likely to benefit both parties than is the principal contract that managers make with select employees. Second,
because employees are concurrently engaged in a contract with the organization that provides many inducements to motivate their joining, performing, and remaining in the organizational relationship, principal-managers can, to some extent, “free ride” on this base of inducements by offering only those necessary to influence employee behavior toward the managers’ self-serving goals. Therefore, we reason that the employee–manager contract is likely to be narrower in scope of inducements (e.g., inappropriate reimbursement of travel expenses) than the employee–organization one, which is typically much broader (e.g., salary, benefits, training opportunity, and interesting job assignment). Third, both manager and employee obligations in the psychological contract with the principal-manager are more likely to be kept secret in order to avoid the organization’s displeasure upon learning of the manager’s dual role and the existence of a second psychological contract with employees. This is in part the case because select employees’ psychological contract with the manager often involve both work and non-work aspects of the manager’s life, for instance, employees’ completion of home improvements such as landscaping or interior decorating for the manager or his/her family, as well as hiding information that enhances the manager’s power and well-being in the organization. Conversely, we argue that the organization’s psychological contract with employees generally will be more transparent in order to comply with extant labor laws and to avoid perceived inequities that might lead to employee complaints and litigation.

3. Antecedents of managers’ principal role

As introduced earlier, agency theory predicts that when a principal and an agent are involved in a collaborative relationship, moral hazard will often occur as a result of conflict between the interests of principals and agents. In contrast, a recent empirical comparison of agency theory predictions with those of social exchange theory conducted in a simulated employment context suggests that agents’ tendency to shirk their agreed-upon contractual responsibilities is not universal. Instead, agents’ responses were found to be shaped by their perceptions of the benevolence reflected in the principal’s interactions with, and stance toward, them (Bottom, Holloway, Miller, Mislin, & Whitford, 2006). Thus, the first proposed antecedent we examine is perceived benevolence in the employment relationship between manager and their employing organization.

3.1. Perceived employer benevolence

Benevolence, defined as employees’ feeling that the organization has their best interests at heart and has generally treated them fairly (Mayer, Davis, & Schoorman, 1995), has been found to be an important factor affecting their attitudes and behaviors toward an organization (e.g., Bottom et al., 2006; Zhang, Tsui, Song, Li, & Jia, 2008). Thus, it is valuable to examine the effects of benevolence in terms of the employment relationship. Research Tsui, Pearce, Porter, and Tripoli (1997) has proposed four types of employment relationships based on the relative level of inducements provided by the organization to employees, and the level of contributions employees make to the organization in return for the inducements it provides. The employment relationships include (1) mutual investment, where both the organization and the individual make large, wide-ranging, long-term, and essentially equivalent investments in the employment relationship; (2) overinvestment, where the organization’s investments in the relationship tend to be greater than the employee’s; (3) underinvestment, where the employee’s investments in the relationship tend to be greater than the organization’s; and (4) quasi-spot contracts, where both parties’ investments tend to be low.

Prior findings have shown that a high level of investment by the organization (mutual and overinvestment) consistently results in more favorable employee attitudes and work behaviors. This is because, we argue, high levels of inducements by the organization to its employees send a clear signal of its benevolence toward them, which in return makes them more willing to reciprocate with their own contributions of favorable work attitudes and performance. Such benevolence also discourages them from undertaking opportunistic behavior to achieve gains at the organization’s expense. Research by Bottom et al. (2006) provided empirical evidence for this argument. They found that in a contractual arrangement between agents and principal, agents who perceived high levels of benevolence from the principal were more likely to both accept and perform their agreed-upon responsibilities. However, when agents perceived low benevolence from the organization, (underinvestment or quasi-spot contracts), they were likely to opportunistically shirk their assigned responsibilities and thereby create a situation of moral hazard. For example, Zhang et al. (2008) found that while the approach of mutual investment in the employee–organization relationship was positively associated with middle managers’ trust in the organization, the quasi-spot contract was negatively associated with their level of trust in the organization. In addition, we note that other research has found that employees’ low trust of their organization is associated with their reduced job satisfaction and organizational commitment and increased turnover intentions (Aryee, Budhwar, & Chen, 2002). Thus, based upon these findings, we posit:

Proposition 1. Managers who perceive that their own employment relationships with their organization is either underinvestment or quasi-spot contract will be more likely to take a principal role than those whose employment relationships with their organization is either mutual or overinvestment.

3.2. Organizational identification

There are also good reasons to propose that organizational identification—defined as individuals’ perception of oneness or belongingness to the organization (Ashforth & Mael, 1989)—is an antecedent of managers’ assumption of a principal-manager role in their psychological contract with select employees. Individuals who identify with an organization, perceive a shared destiny with it.
(e.g., successes of the organization are their successes), and believe that acting on behalf of the organization is the same as acting on behalf of themselves (Ashforth, Harrison, & Corley, 2008). These outcomes result from their internalization of the organization’s values, their self-definition as a part of the organization, and their increased self-esteem derived from their affiliation with the organization. Thus, they tend to behave in ways that are congruent with what the organization expects of them. Hence, prior research has shown that organizational identification is related to individual cooperation, loyalty, and decision making that is organizationally beneficial (Kramer, 2006; Turner, 1982, 1984).

Conversely, individuals may choose not to identify with an organization because they see little value in it, perhaps due to its lack of prestige or limited distinctiveness in terms of values or practices. In this case, individuals do not experience increased self-esteem through their affiliation with the organization (Tajfel & Turner, 1986) but tend to perceive it as a convenient vehicle for the attainment of personal goals and can easily transfer to another without sacrificing their interests. Thus, leaving or exploiting the organization generates relatively little psychological loss to them (Ashforth & Mael, 1989; Hogg & Turner, 1985). This suggests that managers who do not identify with the organization are unlikely to value it and thus, more likely to exploit it by pursuing their own self-interests such as assuming a principal role in making and enacting psychological contracts with select employees. Accordingly:

Proposition 2. Managers possessing low levels of identification with the organization are more likely to take a principal role in the psychological contract with their select employees than those with high levels of identification.

3.3. Personal values

Individuals’ values exert a strong influence on their decision making by affecting their priorities and their criteria for judgment, preference, and choice (Mele, 1995; Williams, 1979). In particular, altruistic values—individuals’ concern for others (Ravlin & Meglino, 1987) or other-orientation (De Dreu & Nauta, 2009; Meglino & Korsgaard, 2004)—have been positively related to ethical behavior, social responsibility, and prosocial behavior (Fritzsche & Oz, 2007; Rushton, Chrisjohn, & Fekken, 1981; Schroeder, Penner, Dovidio, & Piliavin, 1995), because they are highly sensitive to others’ welfare and thus place less importance on personal gain and benefit than do individuals with low concern for others (Korsgaard, Meglino, & Lester, 1996). Following this logic, we expect that managers with low, rather than high, levels of altruistic values will tend to be less concerned for the welfare of the employing organization, and less sensitive to the organization’s benevolence toward them. As a result, low-altruistic managers will be more likely to pursue their self-interests by engaging as principals in contract making with their employees, than will high-altruistic managers.

In a similar vein, prior research has shown that individuals with utilitarian values, as compared to those with formalistic values (Reynolds, 2006), focus on the consequences in determining a course of action, whereas those with formalistic values rely on rules, principles, and guidelines in doing so. Thus, high-utilitarian individuals often fail to see the moral aspects of their norm violations or harm that violations tend to cause to others. Hence, a utilitarian value orientation has been found to be a primary criterion used in moral decisions (Beauchamp & Bowie, 2004). Consistent with this, we reason that managers with utilitarian values will tend to focus on the consequences of a particular behavior (e.g., personal gains) as a determinant of their actions and ignore the organization’s welfare, whereas managers with formalistic values will tend to rely on existing principles and guidelines (e.g., agent role script) that they know will protect the interests of others. Therefore, we propose that managers with utilitarian, as opposed to formalistic, values will tend to engage in principal contracts with select employees. Across both altruistic and utilitarian value types, we posit:

Proposition 3. Managers with low levels of altruism or high levels of utilitarianism will be more likely to take a principal role in the psychological contract with their select employees than will those managers with high levels of altruism or low levels of utilitarianism.

3.4. Personality

Previous research has consistently found significant relationships between personality characteristics and a wide range of individual work attitudes and behaviors. In particular, we focus on conscientiousness and narcissistic personality dimension because evidence indicates that these personalities affect managers’ decisions to enact opportunistic behaviors, despite their agent contract with their employing organization (Fong & Tosi, 2007; Kets de Vries & Miller, 1985; Moon, 2001).

Conscientiousness is defined as the extent to which someone is dependable and acts responsibly and with self-control (Botwin & Buss, 1989). Research suggests that highly conscientious people are more likely than less conscientious people to (1) fulfill obligations (Barrick, Stewart, & Piotrowski, 2002); (2) carry out their duty to others (Moon, 2001); and (3) react negatively to organizational delinquency behaviors such as lying, insubordination, and theft (Hogan & Hogan, 1989). Conscientious people do not lack self-interest; rather, they are motivated by both self-interests (i.e., achievement striving, Moon, 2001) and moral commitment (Miller, 1992). These individuals place value on high performance and feel a responsibility to perform appropriately. Hence, they perform not only for the principal (organization) but also for themselves. This suggests that conscientious managers are less likely to shirk their duties as agents to psychological contract with employees given their moral obligations. Consistent with this, Fong and Tosi (2007) empirically found that conscientious agents put forth the same level of effort whether or not incentives or monitoring is present, while less conscientious agents act opportunistically by shirking when they are not in place. Therefore, we expect that highly conscientious managers will be less likely to shirk their duties as agents based on organizational factors (e.g., employment approach, agency controls such as incentives and monitoring) because they are known to fulfill established obligations to partners (Barrick et al., 2002; Colbert, Mount, Harter, Witt, & Barrick, 2004), and thus, less likely to take a principal role in employees’ psychological contract.
In addition, we argue that a narcissistic personality is also relevant for understanding personality dimensions determining managers’ taking a principal role because it has received special attention as a discrete personality characteristic in studies of managers’ behavior. Narcissistic managers are defined as those who are “principally motivated by their own egomaniacal needs and beliefs, superseding the needs and interests of the constituents and institutions they lead” (Rosenthal & Pittinsky, 2006, p. 629). Because narcissistic managers have a very high sense of their self-importance and feel a strong sense of special entitlement, they are unlikely to judge the level of benevolence that the organization extends toward them as satisfactory, even if it is relatively high in the view of a third party. As a result, they may seek to pursue their own interests (e.g., “it’s all about me”, Chatterjee & Hambrick, 2007), status, and prestige in order to support their grandiose self-worth and in doing so, they are sometimes manipulative and exploitative of people, garnering organizational resources for their own use (Kets de Vries & Miller, 1985). Hence, we posit that managers high on narcissism will be more likely to take the principal role than those low on narcissism. Accordingly, across both personality types, we posit:

**Proposition 4.** Managers whose personality is either low on conscientiousness or high on narcissism will be more likely to take a principal role in the psychological contract with their select employees than will managers whose personality is high on conscientiousness or low on narcissism.

Having explored potential antecedents to individuals’ assumption of a principal-manager role in making and enacting psychological contracts with select employees, we now turn to the different ways in which principal-managers may combine their dual roles.

4. Dual roles framework: Combining managers’ agent and principal roles to yield four archetypes

Rousseau (1995) has stated that of all the parties involved in making psychological contracts, managers are “the most complex agents in employment” (p. 63) because they make contracts with employees as agents for the organization and for themselves as principals. This joint contract activity requires them to simultaneously combine agent and principal roles. We argue that managers do not really have the option of completely avoiding their agent role because it is one of the primary duties for which they are hired and thus, likely to be closely monitored in terms of behavior and outcomes by the organization during the early period after hire, promotion, or job reassignment (Eisenhardt, 1989). Those managers who do neglect to fulfill their agent role will likely be noticed by others in the organization, disciplined, monitored even more closely, and dismissed if their performance does not improve. For this reason, we believe that managers basically have two choices with respect to their agent role for the organization: (1) enact or (2) enact and renege on it later, after the period of high scrutiny ends. The focus of this paper is on the here-to-fore unexamined role of principal-managers, who desire to pursue their own self-interests, rather than to simply enact their assigned role of agent for the organization. Thus, these managers choose to enact a principal role in forming psychological contracts with select employees whose skills, expertise, and effort can aid the managers in achieving their self-interested goals and whose loyalty and in-group status make it unlikely that they will reveal the manager’s principal role to others in the organization. In the case of managers’ assumption of a principal role, we argue that since principal-managers, by definition, have already assumed a principal role, they have two choices in our dual roles framework: (1) enact or (2) renege on the existing principal role.

The combination of two options for both agent and principal roles creates a 2 × 2 matrix comprised of four archetypes of role combinations (Fig. 1). In the following section, we elaborate each archetype using a real case example that provides a glimpse of external and personal factors stimulating managers’ assumption of a principal role, and the nature of the different archetypes resulting from different levels of those antecedents. In doing so, we rely on a profile model (Law, Wong, & Mobley, 1998) such

![Fig. 1. Dual roles framework: Archetypes of combining the dual roles.](image-url)
that our archetypes are theoretical rather than methodological in nature and are based on different profiles composed of varying levels (i.e., high and low) of dimensional characteristics—antecedents in our case (see Table 1). We begin with a discussion of the Juggler Archetype, who enacts both the organizational agent and the principal roles.

4.1. Archetype I, Juggler

The first archetype, Juggler, is identified as a manager who engages his/her agent role and consistently makes valued contributions to the organization, while simultaneously and covertly enacting a principal role by forming psychological contracts with select employees. Jugglers’ profile is that of a high-benevolence employment relationship (mutual or overinvestment), a high level of organizational identification, high altruistic values, a high level of conscientiousness in fulfilling their obligations, and a low level of narcissism in terms of their sense of self-importance and special entitlement. However, when coupled with a desire to pursue one’s own self-interested goals, the juggler profile nevertheless requires that these managers simultaneously juggle both agent and principal roles. Thus, jugglers struggle to repay the organization’s benevolence while also diverting organizational resources, including the time, expertise, and effort of their select employees, to personal projects that primarily benefit the manager.

4.1.1. Case of Juggler archetype

A HR manager from a small division in a large conglomerate provided the case example for the Juggler archetype. The individual formed principal-manager contracts with a few select employees and established explicit or implicit obligations for them, requiring their use of organizational resources to achieve his personal interests. Most of the employees participating in psychological contracts with the manager did so partially out of fear that he would seek revenge on them if failing to accept his principal contract. In return, he provided these employees with valued inducements, such as higher performance ratings and salary raises and thereby increased the pressure on them to meet their obligations to him, even though falling well outside their psychological contract with the organization. Simultaneously, the manager also conscientiously enacted his agent role by supporting top management’s objectives for the organization and pushing his employees to also meet them. Over time, fulfilling the contract with their manager became a top priority for employees, whereas their own contract with the organization became secondary. For instance, despite poor performance of the duties on his job description of general affairs, the select employee received high performance ratings from the HR manager, in exchange for completing the manager’s requested home improvements.

As a result, the Juggler was frequently promoted, becoming a senior manager during the time we knew him, and enacted his dual roles for many years. However, the organization ultimately discovered his unsanctioned use of its resources as the result of an audit conducted during a merger and acquisition, and he was forced to leave his position. It also suspended and/or fired his select employees for their cooperation with the manager’s self-interested activities. Next, we explore the Organization Exploiter archetype who enacts and then reneges on the role of agent for the organization and enacts the principal role.

4.2. Archetype II, Organization Exploiter

The second archetype, Organization Exploiter, enacts and then quickly begins to renege on his/her organizational agent role, while consistently engaging his/her principal role in creating psychological contracts with select employees. Organization Exploiters tend to perceive low levels of benevolence in their employment relationship, although a third party would likely have a different perception. They are also low in conscientiousness, high in utilitarianism, and high in narcissism, being quite self-centered with a strong sense of special entitlement.

These managers consistently deliver on their obligations to a few select employees, often providing them with high levels of discretionary time to further their own goals in exchange for their assistance in achieving his/her own interests and keeping his/her self-interested activities a secret. These managers tend to have a low identification with the organization, perceiving it to be lower in status and filled with members who are less competent than themselves; thus, Organization Exploiters often feel a sense of inequity between their contributions to the organization and the inducements it provides to them. They use this inequity to justify their exploitive behavior toward the organization.

4.2.1. Case of Organization Exploiter archetype

Lawrence Small, a former Citicorp bank executive who served as secretary of the Smithsonian Institute from 2000 to 2007, is a good example of the Organization Exploiter. During Small’s six-plus years of tenure with the Smithsonian, he charged the
organization, a 70% federal, nonprofit, tax-exempt institution, more than $1.1 million for the use of his home to host official functions, including $273,000 for housekeeping, $2535 to clean a chandelier, and $12,000 to service his backyard swimming pool (Grimaldi, 2007). He also accrued $90,000 in unauthorized expenditures (e.g., private jet travel, his wife’s travel to Cambodia, and luxury hotel rooms), took more than 70 weeks of vacation, and spent 64 additional business days serving on corporate boards that paid him a total of $5.7 million in compensation for this time (We note that two board memberships were allowed under his Smithsonian employment contract). Despite this large-scale, unauthorized appropriation of organizational resources, Small consistently met his psychological contract obligations to select employees. His second in command, Sheila Burke, was physically absent from her job for 550 working days over a 6-year period and earned more than $10 million by serving as a board member for other organizations on the Smithsonian’s time.

After information regarding Small’s unauthorized spending emerged in the media, a congressional committee was established to look into the Smithsonian governance. Key Senators on the funding committee gave a vote of “no confidence” to Small and significantly reduced the Smithsonian’s funding; Small resigned under pressure in March 2007, followed by Ms. Burke in September 2007 (Arnold, 2007; Trescott, 2007). We now investigate the Employee Exploiter archetype who enacts the organizational agent role, while reneging on the principal one.

4.3. Archetype III, Employee Exploiter

Employee Exploiters identify strongly with their organization and draw status from their high level, highly visible positions and perhaps not surprisingly, are very conscientious in maintaining high job performance and effectiveness in their organizational agent role. They also possess a very low altruistic value orientation, showing little concern for, or sensitivity to, the welfare of others, and high levels of narcissism and utilitarianism making them quite self-focused and convinced that they deserve special entitlements.

Furthermore, Employee Exploiters display a high level of performance in their agent role, yet renege on obligations created through their psychological contracts with select employees whom they rely on for assistance in pursuing their own self-interested activities, yet view as expendable and treat very poorly. This is characterized by their perceptions of uncertain benevolence from the organization, believing that while it treats them acceptably with respect to inducements and autonomy, it is always ready to replace activities, yet view as expendable and treat very poorly. This is characterized by their perceptions of uncertain benevolence from the organization, believing that while it treats them acceptably with respect to inducements and autonomy, it is always ready to replace them quickly, should a more preferred candidate appear.

The narcissistic personality of Employee Exploiters leaves them with strong feelings of superiority and disdain for the welfare of even highly valuable, select employees. In fact, they generally treat all their employees, quite badly, reneging on obligations to them without remorse. Yet when identifying select employees, Employee Exploiters choose to contract with highly talented individuals who possess the capabilities to help them succeed in their role as organizational agent and meet their personal needs. Nevertheless, possessing a high utilitarian value orientation, Employee Exploiters readily abandon loyal, long-tenured, highly talented, select employees for other job candidates, when facing a significant threat to their own self-interests.

4.3.1. Case of Employee Exploiter archetype

Weisberger’s, 2003 novel, The Devil Wears Prada, is widely accepted as being based on the real-life Vogue editor, Anna Wintour, and provides a fitting example of the Employee Exploiter archetype. The novel’s fictitious fashion magazine editor, Miranda Priestly, carefully chooses her select employees for their specialized expertise, capabilities and conscientiousness, and requires them to satisfy her every whim by continuously working long hours on difficult to impossible tasks (e.g., early to late hours and obtaining prepublication copies of the new Harry Potter book for her 5-year-old twins) that cut deeply into the employees’ own work-life balance. In return, select employees receive constant verbal abuse and threats of firing, interspersed with periods of being totally ignored. Although Miranda’s staff members almost universally respond with high performance, commitment, and loyalty because of their conscientiousness, upward ambitions, and fear of firing, Miranda thinks nothing of reneging on her commitments to them to achieve or protect her own interests. For example, learning through office gossip that her own job is in jeopardy, she reneges on a promised job promotion recommendation for a long-time, loyal, highly talented employee, and instead gives the position to a younger upstart whose primary achievement is her relationship as the current lover of Miranda’s own boss (Weisberger, 2003). We conclude with the All About Me archetype which reneges on both the organizational agent and principal roles.

4.4. Archetype IV, All About Me

The final archetype, All About Me, enacts and then quickly reneges on his/her agent role, while also reneging on principal-manager obligations to select employees. These managers are characterized by a pathologically high level of narcissism and a low benevolence employment relationship with their organization; a high utilitarian value orientation focused on results, rather than ethical standards; low levels of identification with their employing organization, low altruism and thus unable to consider helping others achieve their goals; and a low level of conscientiousness, as their huge self-image makes them immune to criticism by others and demotivates further striving for success.

4.4.1. Case of All About Me archetype

Former Virginia sheriff Daniel Presgraves well portrays the extremes of the All About Me archetype. Soon after winning office in 1999, Presgraves implemented several impressive public programs to assist his constituents, including winning federal grants to enhance the effectiveness of his office and using inmates from the county jail to deliver Meals on Wheels to the elderly and disadvantaged in the county. However, he soon began to display major changes in behavior, using “rakish charm and raw power” to
build his small department into a formidable political machine (Kunkle, 2009). The ethical nature of his behavior suffered a steep decline as he accepted monetary bribes to protect the illegal blood sport of cockfighting in the county, embezzled funds from the sheriff’s office, and sexually harassed 12 female employees. He also sought out select inmates with desired work skills, by calling nearby county jails and requesting their transfer to his jurisdiction, including blocking the transfer of inmates who were to be sent to higher quality rehabilitatating state prisons. Referring to the inmates as “the chosen few”, Presgraves assigned them to do carpentry, landscaping and other chores on his own land, and that of other family members, and rewarded them for their labors with conjugal visits from wives and girlfriends. After learning that he was being investigated for several of these activities, Sheriff Presgraves tried to persuade former employees and their families to avoid speaking with federal authorities about these activities.

By October, 2008, more than two dozen federal charges, ranging from sexual assault to fraud, had been filed against the sheriff and he ultimately pled guilty to obstruction of justice, using inmate labor on private property, and racketeering, he was sentenced to only 19 months behind bar, and another 24 months on supervised release, along with a $1000 fine as well as restitution to victims and $75,000 to the government. Throughout the trial, prosecuting U.S. Attorney Tim Heaphy referred repeatedly to the former sheriff’s arrogance and stated, “He thought he was king of the county and could do anything he wanted to. And for a few years, he apparently did.” (Kunkle, 2009).

5. Potential consequences of managers’ dual roles and practical implications

The preceding case studies showcase the potentially harmful consequences of managers’ assumption of the dual roles to the three major parties—select employees, principal-managers themselves, and the organization. In the case of select employees, these individuals have the advantage of being able to garner many perks and benefits from their manager as the other party to a joint psychological contract. However, the organization’s discovery of their collaboration with the principal-manager will yield unfavorable results for them, including suspension, demotion, and termination. Further, while working with their manager, select employees are likely to experience ongoing conflict of commitment between the two contracts (one with organization and one with manager). Especially, when ethical or legal issues are heavily involved in meeting the demands of the principal-manager, the employees will likely need to choose whether they will take the risk of jeopardizing their job and reputation or refuse to accept the manager’s demands. Repercussions for the employees can be also grave when their manager loses resources that should have been allocated to the employees, or leaves the organization. Some employees may be willing to follow their manager, but such moves may not be supported by the manager’s new employer, or beneficial in terms of the stability of the potential position over time.

Dual-role managers may benefit from pursuing both self-interests and obligations towards the organization, but over time, they will increasingly be unable to deliver the value created through their agent roles because they struggle to balance the demands of achieving their own self-interests and those of the organization. As the archetype cases above illustrate, eventually most organizations discover their principal-managers’ unauthorized use of resources and/or their principal contracts and notice a significant decrease in the manager’s effectiveness in the agent role. Moreover, complaints about principal-managers generally “bubble up” from select employees and begin to reach both new hires and potential applicants. Such complaints will likely lower the manager’s ability to attract talented employees, thereby hurting his/her own effectiveness on the job and credibility with the organization. As a result, principal-managers often lose their job and reputation as trustworthy agents of the organization. Some of these individuals may possess sufficient skills and/or expertise to obtain an equally or more, attractive position before or after their principal role is discovered, but the new position seems unlikely to prove stable if they continue enacting dual-roles in the new organization.

Finally, organizations will likely be more disadvantaged than advantaged by managers’ dual roles because their resources are likely to diminish over time as managers claim value from the efforts of their select employees that should legitimately go to the organization. This may occur even in cases where organizations reap returns from principal-managers’ high performance (e.g., Juggler and Employee Exploiter) because their attention and primary effort is likely to be expended in support of their self-interests and they will tend to appropriate organizational resources (including the expertise and efforts of select employees) without the organization’s sanction. We argue that dual-role managers deprive the organization of the value that might have been created, had it employed other managers who fulfilled their agent role and refrained from appropriating its resources for their own use. Further, once the managers’ opportunistic behaviors are disclosed to the public, organizations may suffer reputational damage, that negatively affects its future funding and its ability to remain independent (e.g., The Smithsonian Institution). Equally important, when high performing select employees leave the organization to follow their manager as a result of the psychological contract between them, the organization will experience a potential loss in human capital which could add significantly greater value to the organization if working under a manager enacting only his/her agent of the organization role.

What can be done to reduce or prevent these negative consequences caused by managers’ dual roles? First, we suggest that organizations proactively discourage their managers from assuming a principal-manager role. By designing structures and processes that align individual and organizational goals and creating high-quality employment relationships with managers that clearly reflect considerable benevolence, employing organizations can motivate their managers to reciprocate in kind by displaying behaviors that contribute to the organization and thus, further their own goals. Although this strategy would not necessarily prevent all managers from taking the dual roles, much prior research indicates that goal alignment and perceptions of employer benevolence provide a strong foundation for motivating managers to carry out their contractual responsibilities (Eisenhardt, 1989; Tsui et al., 1997; Zhang et al., 2008). Second, we recommend that organizations make conscious efforts to directly communicate with managers regarding what inducements are provided by the organization to its employees and the basis on which allocation decisions are made. Such transparency by the organization should motivate managers take a more balanced perspective when enacting their own
responsibilities as agents. Third, given the important role of individual values and personality characteristics as antecedents of managers’ enactment of the principal role, organizations should carefully examine the values and personalities of the managers they recruit, not just their abilities and experience, in order to estimate the level of person–organization fit. Organizations should consider seeking feedback from past and current employees of potential managerial hires to gain valuable insights when making a hiring or promoting decision. Lastly, organizations should develop clear and specific norms and guidelines for managers’ behavior in representing the organization as its agent. By clearly communicating acceptable and desired behavior, while punishing self-interested, exploitive behaviors, organizations should be able to avoid many cases of emerging principal-managers. For instance, research by Leatherwood and Spector (1991) has shown that enforcement policies reduce individuals’ reported intentions to engage in those behaviors.

6. Discussion

This paper takes an important first step towards more completely capturing the roles that managers play in employees’ psychological contracts. Departing from traditional views that managers act only as faithful organizational agents, we argue instead that some managers simultaneously combine two roles, that of an agent representing their organization in its psychological contract with all their direct reports, and that of a principal engaged in his/her own psychological contract with select employees for the purpose of achieving his/her own self-interests. Though seemingly small, the distinction between one, versus two, roles is substantial because the acceptance of dual roles directly raises the issue of managers’ responsibilities to the organization and its employees as well as their willingness and ability to fulfill those obligations. As we have shown through the inclusion of real case examples in this paper, some managers are willing to renege on their undisputed obligations as agent to the organization and/or on their principal-manager obligations to select employees. Our paper also extends psychological contract theory by proposing antecedents of managers’ reneging on their responsibilities to the organization and the potential practical consequences to affected parties.

In particular, we believe that managers’ assumption of dual roles will likely cause inconsistency and confusion in employees’ view of who is the principal in their psychological contract with their employing organization. Principal-managers will be tempted to promise, or overpromise, inducements to select employees in order to motivate them to achieve the managers’ self-interested goals to the detriment of organizational resources. Further, the secret and illegitimate nature of principal-managers’ contracts with select employees will make the likelihood of contract breach by these managers to the organization, and to their select employees relatively high. Prior research findings suggest that employees tend to believe that their managers’ requests of and promises to them are made with organizational approval (Levinson, 1962; Rousseau, 1995; Shanock & Eisenberger, 2006). Thus, employees tend to hold the organization liable for breaches that are, in fact, committed by the principal-manager. Accordingly, employees’ erroneous beliefs about which party has violated their psychological contract may damage their trust in and commitment to the organization. Therefore, we posit that select employees’ misattributions of contract breaches made by principal-managers to their organization are one cause of the relatively high rate of employee-perceived contract breaches by the organization (e.g., Robinson & Morrison, 2000; Robinson & Rousseau, 1994; Turnley & Feldman, 1998, 1999).

In addition, our conceptualization of managers’ dual roles calls attention to the inherently gray areas in the psychological contract that are increasing with the growth of more individualized employment arrangements in today’s workplaces (e.g., I-Deals). As organizations increasingly rely on individualized employment arrangements to meet the needs of individuals, managers as primary organizational agents are often called upon to negotiate with their employees (Rousseau et al., 2006). Unfortunately, managers’ role in negotiation or their latitude in doing so is not clearly established by most organizations, and thereby increases the probability that their negotiation results will wind up looking a lot like principal-manager contracts with employees.

Finally, we utilized real-life cases to illustrate the four archetypes of managers’ combining dual roles. Although these cases bring the strengths of credibility and interest to our paper, some may consider them to be extreme examples of the lengths that managers go to achieve their own interests and as such, limit the generalizability of the dual roles framework. However, we developed the framework first drawing from agency, psychological contract, employment relationship, and personality and value theory and concepts, and then identified real-life cases in the media to illustrate them. Hence, we argue that the cases supporting the archetypes are not extreme examples and rather, they representatively reflect the behavior of principal-managers who fit within the different cells of the dual roles framework. Therefore, we believe that the framework will generalize to other real-life examples of principal-managers.

Toward that end, we encourage future research to more rigorously determine the validity of the archetypes identified in this research. Given the infancy of research on this topic, qualitative interview work with employees and their immediate managers, as well as top leaders representing the organization, would be useful in establishing the nature, antecedents, base rate and consequences of principal-managers. Assuming that qualitative findings support the validity of propositions from the research and the dual roles framework, we encourage researchers to move to quantitative research that examines the presence of dual roles and principal-managers across a variety of organizations. Both measurement issues and data sources will be quite important in subsequent quantitative research in order to determine the validity of managers’ self-reports of their dual roles as well as the reports of their employees and higher level organizational leaders. We urge quantitative researchers to examine and extend existing propositions from the paper as well as potential moderator effects of individual characteristics and organizational context variables.

2 We thank an anonymous reviewer for raising this point.
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