

# **Employee-Employer Relationships: Fulfilling the Psychological Contract through Leadership**

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# What is a psychological contract?

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Psychological contracts are defined as an individual's belief in the [reciprocal obligation](#) between the individual and the organization.

There are three key features of the psychological contract:

- [Subjective](#): Perceived obligations are based on what an employee believes they are expected to give, and what they can expect to receive in return.
- [Implicit](#): The obligations included in the psychological contract are not explicitly written in the formal contract.
- [Mutuality](#): Employees believe organizations understand and agree with their perceptions of what is owed by both parties. Organizations do not need to explicitly agree on these obligations; it only matters that the employee thinks they agree (Rousseau, 1989).

# How are psychological contracts formed?

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Although each psychological contract is different, most are developed following a general process:

1. Individuals hold **norms and ideas** about work that exist prior to and independent of hiring.
2. During the hiring process, employees perceive that organizations make them **promises**, and that they have made the organization promises in return.
3. These promises form the perceived **obligations** between employees and organizations.
4. The perceived obligations lead employees to **expect** specific things from their organization, and expect to give specific things in return.

# How are psychological contracts formed?

## An example.

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1. **Norms and ideas about work:** Jane holds the idea that employees work overtime. This belief is based off her previous work experience and off advice she has received from her colleagues, who also work overtime.
2. **Promises:** When she was hired, Jane promised her new employer that she would work overtime during the busy season. She felt that, in return, her employer promised to give her extra vacation time, despite the fact that this was not included in her contract.
3. **Obligations:** Jane feels she is responsible for working overtime, and that in response, the organization is responsible for giving her extra vacation time.
4. **Expectations:** After working overtime, Jane feels she is owed time off, and not receiving it is a violation of her psychological contract.

# Fulfilled vs. violated contracts

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**Fulfilled psychological contract:** When the perceived obligations between an employee and employer are met.

**Violated psychological contract:** When the perceived obligations between the employee and employer are not met.

Contract violations are perceived as a **breaking of trust** between the employee and their organization (Parzefall & Coyle-Shapiro, 2011).

The negative reactions to violation are **stronger than** the positive reactions to fulfillment (Conway, Guest, & Trenberth, 2011).

# Why do psychological contracts matter?

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Several research studies have shown that fulfilled psychological contracts are related to positive employee outcomes (Chen, 2007; Collins, 2010; Turnley, Bolino, Lester, & Bloodgood, 2003), such as:

- **High job performance**
- **Engaging in helpful behaviors that go above and beyond typical work expectations**
- **Lower turnover intention**

# What happens if there is a violation?

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Research also demonstrates that violated psychological contracts are related to negative employee outcomes (Jensen, Opland, & Ryan 2012; Johnson & O'Leary-Kelly, 2003; Parzefall & Coyle-Shapiro, 2011; Zhao et al., 2007), including:

- **Feelings of anger and betrayal**
- **Absenteeism**
- **Counterproductive behaviors that seek to damage or inconvenience the organization**
- **Decreased job satisfaction and performance**

# What does this mean for leaders?

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As an agent of the organization, leaders are often an **object of the psychological contract** (e.g., employees perceive obligations between themselves and their supervisor).

Leaders **reap the benefits** that come with fulfilled contracts, while **suffering the consequences** of violated contracts.

Given that psychological contracts combine pre-existing norms with perceived promises, obligations and expectations, leaders **cannot fully control** psychological contracts.

Leaders can, however, have a large impact on the employee's perception of promises, obligations, and expectations.



# How can leaders influence psychological contracts?

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A few simple leader behaviors can influence psychological contracts, especially when new employees are first hired:

1. **Be explicit**
2. **Manage expectations**
3. **Communication**

# Psychological Contracts and Leadership

## Be explicit

Psychological contracts help employees navigate ambiguous situations. There are a few ways leaders can avoid creating ambiguous situations:

- **Include as much information in the written contract as possible.** Expectations included in the formal contract are more concrete than those discussed but left unwritten. While every possible exchange between employee and employer cannot be written in a contract, leaders and HR professionals should avoid making promises or even suggestions about obligations if they are not written in the contract.
- **Cover expectations and obligations in all the major areas affecting an employee's work.** Issues such as compensation, promotion, and training requirements are often subjects of the psychological contract. Be as clear and specific as possible when discussing obligations surrounding these topics.
- **Do not assume employees will learn what is expected of them or what they can expect in return.** As new employees adjust to the organization, they often learn "how things are done" from other employees. If these existing employees have misunderstandings about obligations, they may pass their interpretations on to new employees. Leaders should clearly outline employee roles and expectations.

# Psychological Contracts and Leadership

## Manage expectations

During the process of detailing expectations, leaders must be realistic about what they expect from their employees and what they can exchange in return. In order to manage expectations:

- **Ensure all employees have a realistic understanding of their relationship with the organization.** This relationship will not be the same across different jobs, seniority, or responsibility within an organization. It is better that the employee hears their individual expectations and obligations from a manager or leader, rather than hearing it from other employees.
- **Highlight both what organizations promises to provide, and what they do not promise to provide.** Leaving this information up to employee interpretation invites misunderstandings and unmet expectations.
- **Recognize how leader behavior can influence psychological contracts.** Behaviors such as providing intellectual stimulation, expressing positivity toward work, and behaving ethically are positively associated with fulfillment and negatively associated with violation (e.g., Epitropaki, 2013; Wu & Chen, 2015). As noted, fulfilled and violated contracts can have direct effects on employee behavior.

# Psychological Contracts and Leadership

## Communicate

Employees work under the assumption of mutuality. Leaders can use the following behaviors to ensure the understanding is mutual:

- **Have *recurring* discussions about expectations.** Although the psychological contract is often formed shortly after hiring, it is “updated” as employees learn more about their job. Every instance of contract fulfillment and violation influences the psychological contract (Parzefall & Coyle-Shapiro, 2011).
- **Realize that the leader and employee must *work together* to ensure both parties have their expectations met.** The supervisor is not responsible for managing an employee’s psychological contract alone. Both parties should work together to ensure mutual satisfaction and reduce the impact of violations.
- **Understand the importance of *communication*, especially following a contract violation.** The significant, negative reactions that follow a psychological contract violation only occur if the employee believes the organization had the *opportunity* to hold up their end of the bargain but didn’t (Rousseau, 1995). Explaining why a violation occurred, especially if there is a significant situational or environmental reason (e.g., hard economic times resulting in a budget shortfall which prevented raises), can mitigate the fall-out of a violation (Cassar & Buttigieg, 2015; Kickul, Neuman, Parker, & Finkl, 2001).

# Final Thoughts

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Psychological contracts are perceptions of the obligations between an employee and their employer.

These obligations results in positive workplace outcomes when fulfilled (e.g., higher job performance), and negative outcomes when violated (e.g., loss of trust, anger).

Leaders can engage in a few simple behaviors which foster the development of psychological contracts that are beneficial for all parties involved:

1. Be explicit in outlining expectations and obligations
2. Manage expectations so they are realistic
3. Communicate these expectations to employees on an ongoing basis

# How SIGMA Can Help

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## Our Philosophy

We believe in using rigorous science to help leaders develop to their full potential. Fostering successful relationships between employees and their employers is essential for leading effectively and for organizational success.

## Our Approach to Coaching

We believe in taking our knowledge of employee-employer relationships and working with leaders to:

1. Enhance their understanding of their strengths and developmental priorities through assessment.
2. Explore what they need to do differently to be more effective and balanced.
3. Equip them with the information, tools, and resources to better use their strengths, to grow their developmental areas, and to sustain these positive behaviors over time.

# Contact Us

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For more information on the leadership assessments we offer and the coaching services available, please contact us.

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