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LEADERSHIP AND THE PSYCHOLOGICAL CONTRACT

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ABSTRACT

This article defines and describes the psychological contract. It explains the reciprocal obligations of employees and employers who psychologically agree to fulfill unwritten reciprocal obligations. It describes opportunities for change from old notions of psychological contracts to new ones. Violations and consequences of those violations of the psychological contract increase the likelihood of psychological withdrawal and sabotage in organizations. Trust is the key to making the unwritten, reciprocal, contractual agreement work.

Leaders develop both written and unwritten expectations of their subordinates in organizations. Likewise, employees join organizations with many unwritten expectations and perceived obligations of the organization toward them. These mutual, unwritten expectations and perceived obligations of each party toward the other operate as a *psychological contract.*

As competition increases, as organizations grow more complex, and as employees become more difficult to understand, it becomes increasingly difficult for leaders to directly satisfy the needs of individual employees. Moreover, employee expectations of their employers grow higher and higher, in terms of psychic as well as material rewards, as cultures become more highly educated. Consequently, the leadership and overall climate of an organization must fulfill the needs of its individual employees in order to provide a supportive culture. The essential element of this new supportive culture involves the development of mutual trust. A people business, leadership *must* involve itself in the business of

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developing a vision and providing hope for employees. Employees must believe in the organization's leaders, and the organization's leaders must behave in ways that promote and develop trust and belief in them. The breakdown of trust in leadership initiates the downward slide of an organization and generally leads to morale problems, turnover, negative attitudes, decreased profits, and ultimately, in some cases, the complete deterioration of an organization and its demise [1]. Understanding the leader's responsibility in keeping up the *psychological contract* and fulfilling its obligations ensures the development and maintenance of a healthy and effective organization.

THE PSYCHOLOGICAL CONTRACT

What is the psychological contact? Rousseau argued, "The term psychological contract refers to an individual's beliefs regarding the terms and conditions of a reciprocal exchange agreement between that focal person and another party" [2, p. 122]. Levinson stated, "The psychological or unwritten contract is a product of mutual expectations. These have two characteristics: (a) they are largely implicit and unspoken, and (b) they frequently antedate the relationship of person and company" [3, p. 22]. *Nothing about the psychological contract is written or spoken.* "Many Japanese scholars writing in English have tried to explain to bewildered Americans the ethics of a culture in which greater value is placed on silence than on speech, and ideas are believed to be best communicated without being explicitly stated" [4, p. 96]. Kahn et al. referred to a psychological contract as unwritten expectations that operate continuously at all times between all the various members of an organization and its leaders. The organizational viewpoint of the contract implies every role has a set of behavioral expectations [5]. Schein claimed each subordinate in an organization has expectations about salary, working hours, benefits, and privileges that go with a position—such as a belief no employee will be terminated unexpectedly. The many unwritten expectations in the psychological contract involve a person's self-worth and value as an individual in the organization. Employees expect organizations to treat them fairly, to provide opportunities for upward mobility, and to give them feedback [6]. Employees want to be involved in making decisions about their own behavior in organizations, using their abilities to think, reason, and anticipate future events.

RECIPROCAL OBLIGATIONS

A psychological contract includes elements of reciprocal obligation. Rousseau noted:

> When an individual perceives that contributions he or she makes obligate the organization to reciprocity (or vice versa), a psychological contract emerges. Belief that reciprocity will occur can be a precursor to the development of a

> psychological contract. However, it is the individual's belief in an obligation of reciprocity that constitutes this contract. This belief is unilateral, held by a particular individual, and does not constrain those of any other parties to the relationship [2, p. 124].

Robinson and Rousseau inferred the psychological contract involves a belief in the mind of an employee of what the organization obligates itself to provide, based on perceived promises of reciprocal exchange between the employee and employer [7]. "The psychological contract is an implicit contract between an individual and his (or her) organization which specifies what each expects to give and receive from each other in their relationship" [8, p. 92]. Kotter further argued mutual reciprocal expectations exist between an individual and the organization. The individual expects to receive from the organization advancement opportunities, a decent salary, and challenging work, as well as expectations to give to the organization time and technical skills. The organization also has expectations from the subordinate, such as loyalty and competent work skills [8]. "Psychological contracts are an individual's beliefs regarding reciprocal obligations" [9, p. 390]. Rousseau further regarded psychological contracts as beliefs that when entered into cause an individual to believe s/he owes an employer contributions such as hard work and loyalty. When employees recognize the importance of behaving and performing their jobs in a certain manner they expect the organization to reciprocate by fulfilling its obligations toward them, such as providing fair compensation and job security. When both parties recognize these obligations, Rousseau claimed a true psychological contract exists [9].

The advantage of fulfilling these reciprocal obligations increases trust both ways; the obligations invigorate high trust, which tends to stimulate high performance. For example, when a leader demonstrates high trust in an employee, s/he tries to justify his/her boss's good estimation. Axiomatically, high performance reinforces high trust. For example, when one trusts and respects a person who meets or exceeds his/her expectations and that person reciprocates with recognition of some kind, more trust develops. On the other hand, low performance from employees also reinforces low trust from supervisors, which produces a kind of self-fulfilling prophecy.

The trust-performance cycle suggests an interesting communication parallel—the mutual interdependence of a trusting relationship and effective communication. When the organizational culture functions as supportive and trusting, communication usually revolves around open discussions focused on task accomplishment. The aura of open communication makes it possible to candidly express feelings and ideas without fear of reprisal. Individuals support and assist one another when mistakes occur, carrying one another and compensating for each other's errors. The forgiving and nurturing atmosphere functions as an opportunity to learn from mistakes rather than as an occasion for punishment.

Effective communication contributes to reinforce and enhance an existing trusting climate.

When the organizational culture functions as unsupportive and nontrusting, communication often arouses back-biting and focuses on deep, long-lasting feelings of betrayal, which creates destructive relationships [10]. As the culture becomes increasingly hostile and threatening, communication suffers; people suppress their true feelings, fearful of revealing them lest they be punished. In normal behavior, individuals tend to want to protect themselves rather than expose themselves to negative reprisals. Unfortunately, in hostile organizational cultures, people who want to misunderstand or be misunderstood look for such opportunities even when perfect communication exists.

THE NEW PSYCHOLOGICAL CONTRACT

A new psychological contract must be created between employees and organizations. "The agreement must become, in some respects, less emotional. There can still be loyalty, security, and commitment, but these must be achieved in different ways than in the past" [11, p. 169]. Finding a new way to reestablish the mutual benefit from the agreement, for both parties, must be found. The responsibility for finding this new way of reestablishing mutual benefit falls on leadership. The idea of a shared vision, which benefits the organization *and* the employee, should provide job security, corporate loyalty, and increased productivity. The primary key involves an interdependent relationship between the employee and the organization, with information available to both parties, and shared, rather than one-sided, decision-making power. Both power and risk must be shared [11].

VIOLATION OF THE PSYCHOLOGICAL CONTRACT

Argyris believed organizations create conditions that cause employees to experience "psychological failure" [12]. This internal conflict is experienced as one moves down the hierarchy, as jobs become more specialized and mechanized, as leadership becomes more directive, as the formal structure becomes tighter, and as people become more able (task mature), and more educated. When organizations begin to operate within this kind of culture, Johnson and Induik advocate the psychological contract will become violated and tremendous morale problems and power problems will arise [13]. *When companies ignore human feelings and provide no mechanisms of support for their employees, frustration may take the form of some creative forms of revenge.* For example, employees might quit, or psychologically withdraw from the organization through frequent absenteeism, indifference, apathy, or passiveness. They might resist the organization by restricting output, deception, featherbedding, or sabotage. They might attempt to rise higher in the organization to better jobs, or

create organizational subcultures, such as unions, to redress the power imbalance [14]. Disgruntled employees might come to work merely to do enough work to collect their paychecks. Their minds, far too often distracted by their unhappiness, become fertile ground for injuries, accidents, poor quality products, and high turnover. Did the Peruvian airliner crash in November 1996 happen because of psychological withdrawal from the organization? Postcrash investigation found duct tape, placed over the airplane's sensors during cleaning, *still there* after cleaning and takeoff. The mistakenly marked gas canisters on the ValuJet airplane that crashed in the Florida Everglades in 1996—could they also have resulted from distracted employees? Poor attitudes developed on the job often can be linked to broken psychological contracts. These conditions create situations where behaviors, such as those mentioned above, could certainly occur.

Robinson, Kraatz, and Rousseau believe violation of the psychological contract erodes the relationship and the belief system of the reciprocal obligations in organizations when one party perceives the other has violated their agreement [15]. Violation of the psychological contract by the employer may not only affect what the employee believes the organization owes him/her, but it also may affect what the employee believes s/he owes the organization. When an organization violates the psychological contract, the employee views the organization as no longer sharing (or maybe never did share) a common set of values and mutual expectations. When this happens, communication breaks down, understanding fails, and frustration increases [16]. This unwritten psychological contract binds the employee and employer in a guarantee of reciprocal benefits. *Violations weaken the bond* (emphasis added), and the violated party feels abused and loses faith in the benefits of staying in the relationship [2]. The costs of securing and retraining replacement employees, or the insecurity of searching for a new job and then retraining oneself to fit in, far outweigh whatever it costs to maintain the interdependent relationship of the psychological contract.

SUMMARY

This article defines and describes the psychological contract. It explains the reciprocal obligations of employees and employers who psychologically agree to fulfill unwritten reciprocal obligations. It describes opportunities for change from old notions of psychological contracts to new ones. Violations and the consequences of those violations increase the likelihood of psychological withdrawn and sabotage in organizations, and those were described. The importance of trust and the psychological contract cannot be overemphasized as the key to making the contractual agreement work.

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