Leadership Results

A Brief Introduction to the Leadership Psychological Contract

Now more than ever, organisational leaders face complex situations with inherent conflicts. Coupled with these challenges is a concern that we are experiencing a leadership crisis with leaders who are appointed to resolve problems instead engaging in practices that contribute to societal problems. Ethical and extraordinary leadership is required.

This article aims to improve the practice of leadership for the 21st century by contributing a leadership psychological contract (LPC) model that focusses on the relational exchange between leaders and followers as the true nature of leadership.

The Psychological Contract

The term 'psychological work contract' was first coined by Argyris (1960) to explain the implicit agreement between employers and employees. Evolving from social exchange theory (Blau, 1964), the psychological contract (PC) is an implicit understanding of social expectations between individuals. Rousseau (1989) defines the PC as a reciprocal understanding between an individual and organisation encapsulating unexpressed beliefs, promises, expectations, responsibilities, and obligations of employees with regard to a fair employment relationship.

There are two main types of psychological contract. Transactional contracts relate to expectations or obligations that are quantifiable, objective, and generally shorter term and static. They often focus on financial agreements and compensation issues. Relational contracts relate to obligations and expectations that are intrinsic and emotional in nature such as loyalty or other socio-emotional factors. Relational contracts are often subjective, less tangible, longer term, and dynamic. Relational and transactional PCs are not mutually exclusive.

The psychological contract can be breached or violated when an employee believes that the organisation has failed to uphold its promises or obligations. Negative work attitudes, emotions and behaviours can result. Conversely, employees will be highly committed, satisfied and engaged when an employee believes that the organisation has upheld its promises or obligations (Rousseau, 1995).

Psychological contracts provide an analytical framework for studying relationships within organisations. However, they present an inherent 'agency problem' (Guest, 1998) because the PC is a contract between the employee and the organisation itself , unlike a traditional employment contract which is usually signed between the employee (an individual) and an 'agent' or 'representative' of the organisationand. As a result, PCs can be projected onto multiple members within the organisation who do not communicate a uniform set of expectations (Guest, 2004). Some authors (Rousseau, 1995) have attempted to deal with this problem by treating the organisation as an 'individual' but this does not solve the 'agency problem' since employees still can choose from a range of representatives when thinking about their relationship with the organisation. The LPC solves the problem by clearly identifying the employee's immediate leader as the individual with whom the PC is held.

The Leadership Psychological Contract

Although a central element of contemporary leadership approaches is the relationship between leaders and followers, and despite the recent recognition that promoting psychological contracts through leadership is the missing link between HR strategy and organisational performance (McDermott *et al.,* 2013), to date no contemporary approach to leadership has explicitly considered using the PC as a framework to fully understand this leader-follower relationship.

The LPC integrates four components in a predictive 'cause and effect' model and enables valid and reliable measurement and diagnosis of leader-follower relationships. Results provide a clear indication of deficiencies and corrective action (Figure 1).

Figure 1. Theoretical Framework for the Leadership Psychological Contract (LPC)
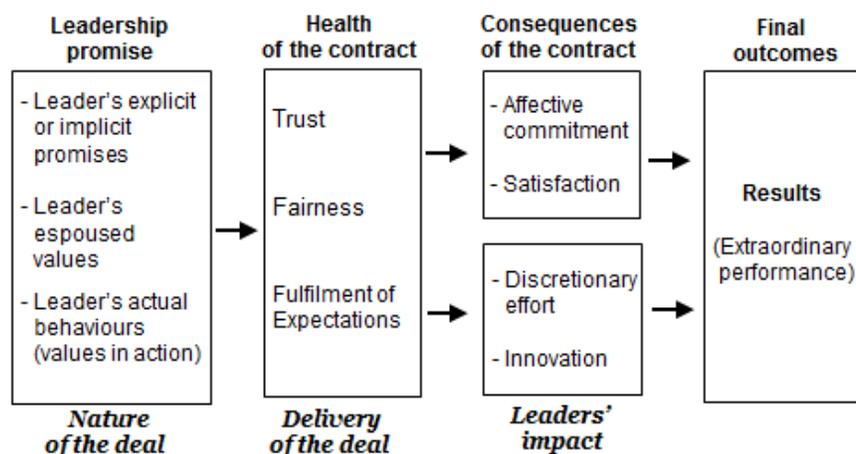
1. The leadership promise defines the nature of the deal offered by the leader, shapes the followers' expectations, establishes the leader's obligations and provides assessment criteria for followers to assess the health of the contract or delivery of the deal.

2. The health of the contract, or delivery of the deal, reflects the extent to which the leadership promise has been fulfilled or the contract has been delivered. This component constitutes the leader's integrity and credibility.

3. The consequences of the contract define the impact of the leader on followers' emotional and behavioural responses to the health of the contract or delivery of the deal.

4. Final outcomes are results defined as extraordinary performance or, in some industries, game breaking results (results that are unprecedented).

Authentic Leadership and the LPC

The LPC incorporates the unexpressed beliefs, promises, expectations, responsibilities, and perceived obligations of leaders towards their followers. These drivers have two main components: the leaders' espoused values or principles and the leaders' actual behaviours (values in action). Michie and Gooty (2005) suggest that authentic leaders have self-transcending values, that is, values that are universal and apply to humankind (e.g. social justice, equality and broadmindedness) and benevolent values (e.g. honesty, responsibility and loyalty) which apply to followers. In the LPC, benevolent values may be particularly important to the leader-follower relationship.

Meeting of the minds – assessments and decisions

Meeting of the minds refers to followers' cognitive responses to the leader and the assessment that followers make about the congruence between the leader's promise and the leader's action: *does our leader walk the talk?* The responses to these questions constitute the health of the contract or delivery of the deal. Its currency is the credibility of the leader and it is measured using three variables: fulfilment of expectations, trust and fairness.

Fulfilment of Expectations

Fulfilment of expectations is the degree to which the leader delivers the promises, expectations, and/or obligations that the followers recognise as part of the contract. Within the context of the LPC model, 'met expectations' is the first antecedent on which trust and perceptions of fairness are based. Studies on both met expectations and PC breach (unmet expectations) show that the degree to which leaders meet the expectations of their followers is associated with organisational commitment (Coyle-Shapiro and Kessler, 2000).

Trust

Trust involves a willingness to be vulnerable, an expectation that one's interests will be considered in one's absence, and an assessment of the leader's intentions, character and integrity (Burke, et al. 2007). Within the LPC model, trust is conceptualised as a cognitive variable reflecting issues such as reliability, integrity, and honesty (McAllister, 1995). The degree to which followers can anticipate the leader's actions and decisions, as well as the extent to which these are aligned with expectations, are critical for workable contracts. Trust decreases when violations occur, weakening the relationship.

Fairness

Fairness directly relates to organisational justice and explains various organisational behaviour outcome variables. Perceptions of fairness influence employee citizenship behaviour (Moorman, 1991). Organisational justice is a moderator in the relationship between PC breach and work-related attitudes and behaviours (Kickul, Lester and Finkl, 2002).

The mediating role of emotions

Emotions have a powerful role in establishing a strong bond between leaders and their followers –the meeting of hearts– and on the consequences of the contract or *leadership impact*. Their impact on performance has already been well established Boyatzis (2011). We measure the mediating role of emotions using affective commitment and satisfaction.

Affective commitment

Affective commitment refers to the followers' positive emotional attachment to the leader, identification with the leader and involvement with the leader in pursuit of common goals. A follower who is strongly committed identifies with the values, principles, purpose, and goals of the leader and actively desires to be a follower. Commitment can heighten employee engagement which in turn motivates employees to increase their discretionary effort (Shuck *et al.*, 2011). Affective commitment can be an important mediator between effective human resources practices (e.g. fair rewards and empowerment) and employee organisational citizenship behaviours (Yang, 2012).

Satisfaction

Employees tend to attribute satisfaction to the unique leadership style of their leader and the sense of achievement derived from working. It is both an outcome and motivator. More broadly, satisfaction is an emotional state reflecting a positive response to the working situation at hand (Locke, 1976). Satisfaction and affective commitment are related with employees who are satisfied experiencing higher levels of affective commitment (Michaelis *et al*., 2009).

Extraordinary behavioural outcomes

These outcomes refer to the focused, intense, relentless and creative action that is unleashed as a result of the bonding between leaders and followers – it's about "moving mountains". This constitutes the action part of the consequences of the contract or *leadership impact*. We measure it using discretionary effort and innovation.

Discretionary effort

Discretionary effort describes performance (behaviours, actions or activities) in which individuals exceed normal demands, requirements or expectations of their job. Discretionary effort is likely to add value to any team. In a sample of employees across multiple industries, affective commitment was linked to discretionary effort through a mediating variable: employee engagement (Shuck *et al.* (2011).

Innovation

In this context, innovation refers to innovative behaviour. This relates to followers' orientation towards innovation and change and is associated with the likelihood of team members generating and/or adopting new ideas and/or practices (Scott and Bruce, 1994). Innovation relates to perseverance with the implementation of new and promising ideas and higher levels of thinking. Recent research (Ng *et al.*, 2010) suggests that psychological contract breach is associated with decreases in innovative behaviours as employees lose commitment towards the organisation.

LPC as a strategic leadership tool

In conclusion, we now live in an increasingly dynamic, complex, competitive and uncertain world. This, combined with past leadership failures, social unrest and the leadership crisis witnessed in business and the community at large, poses unprecedented challenges for current and future leaders. These include a greater demand for transparency and leaders who are capable of building and maintaining workforce morale and a sustained culture of innovation and high performance. The ability to attract or develop such leaders, for both commercial and NGOs, is increasingly becoming a key source of competitive advantage.

From this perspective, the LPC is a powerful strategic tool providing a fresh approach for the development of a new generation of credible leaders capable of creating sustainable organisations. The LPC model is grounded on PC theory and integrates and complements previous leadership approaches (ethical, authentic, positive, emotional intelligence and creative leadership). In practice, the LPC offers contemporary leaders and practitioners a unique opportunity to lead with integrity by incorporating strategic leadership thinking and behaviours that enable high levels of employee engagement, discretionary effort, innovation, superior team and organisational performance, and extraordinary business results.

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