

An Investigation of Leadership Styles and Psychological Contracts

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This study was conducted to determine whether a statistically significant relationship exists between the leadership styles of managers and employee psychological contracts, as perceived by the employees. The findings indicated that the employees' perception of leadership style significantly affected satisfaction levels of employee psychological contract. It is worthy to note that initiating leadership behavior was found to be related most positively to employee psychological contract, even though the managers demonstrated little consideration to the employees.

Keywords: Psychological contract, Leadership styles, Downsizing

Introduction

In recent years, many relationships at work have been mauled by organizational changes such as downsizing, reengineering, and reorganizations, which have had significant effects on the relationships with one's supervisors who have become less personally involved; peers who have been more competitive for fewer resources; customers who are more demanding; organization which has become less personal (Morrison, 1994). Taiwan's businesses are not excluded from the situations. As a developed country, many companies have to relocate their manufactures and managers to other countries with cheaper labor cost such mainland China and Vietnam in order to maintain competitiveness. As a result, companies that remain in Taiwan have to utilize their human resource more carefully and efficiently. Managers realized that they do not just need more efficient processes and technology in order to compete, but also need motivating people in order to survive and to be competitive, psychological contracts became an important topic.

It is believed that one of the crucial leadership challenges in business today is to create and maintain a more viable relationship between employer and employees. A major element of this relationship is employee psychological contract (PC) (Schein, 1980; Schermerhorn, Hunt, & Osborn, 1985; Tornow, 1988). Rousseau (1989, p. 123) defines the psychological contract as "individual's beliefs regarding the terms and conditions of a reciprocal exchange agreement between that focal person and another party". In another words, psychological contract is a person's set of expectations regarding what he or she will contribute to the organization and what the organization will provide to the individual in return. Failure to uphold the contract can endanger the functioning of the organization and lead to a situation where employees no longer cooperate with the organization. Research suggests that when employees believe that promises and obligations are unmet or unfulfilled by the organization, they are more likely to report a decrease in perceived obligations to their employer, lower citizenship behavior, reduced organizational commitment, and decreased job satisfaction.

Leadership is the process by which a person exerts influence over other people and inspires, motivates, and directs their activities to help achieve group or organizational goals. Effective leadership increases an organization's ability to meet all challenges, including the need to obtain a competitive advantage, the need to foster ethical behavior, and the need to manage a diverse workforce fairly and equitably (Moorhead & Griffin, 2004). When organizations acknowledge including employees as collaborators rather than purely functioning employees, the psychological contract is a powerful determining factor of organizational success (Davis, 2003).

Although the existing literature provides evidence that leadership is highly related to employee satisfactions and organizational effectiveness (Bateman & Organ, 1983), and employee PCs were affected by human resource activities, job security, compensation strategy, and so forth in Taiwan (Nee, 2000; Huang, 2002). a literature review revealed a very few studies to date that has explored the unique aspects of psychological contracts from the perspective of leadership styles. According to Davis (2003), in the post-industrial workplace, leadership has been redefined as being grounded in relationships rather than execution of positional authority. Leadership is not just the legitimate positional authority granted by the organization, but is a process involving relationships and reciprocity with others. In order to have better understanding of how manager's behaviors affecting employee's overall work

attitudes, a study of leadership styles of managers and employee PCs is needed. The lack of literature regarding the two areas is also a trigger of development of the present study. Therefore, this study aimed at investigating the effects of leadership style of managers as perceived by the employees on employee psychological contracts.

Theoretical Framework

The term “psychological contract” (PC), as considered as the implicit understanding that existed between the two parties to the contract, was first being introduced into management literature by Chris Argyris in his 1960 book *Understanding Organizational Behavior*. According to Schein (1965) “These expectations not only cover how much work is to be performed for how much pay, but also involve the whole pattern of rights, privileges, and obligations between worker and organizations” (p.11). Failure to uphold the contract can endanger the functioning of the organization and lead to a situation where employees no longer cooperate with the organization. Later on, Rousseau (1989, p. 123) defines the psychological contract as “individual’s beliefs regarding the terms and conditions of a reciprocal exchange agreement between that focal person and another party”.

Therefore, when employees perceive that their organization did not fulfill the promised obligations, PC violation occurs. Robinson (1996) asserted that the consequences of PC violations could be very harmful to the organization. Employees would adjust their work behavior, such as intentionally reduce his or her productivity or organizational citizenship behaviors, or withdraw from their work for responding to PC violations. The definition of psychological contract breach is the cognition “that one’s organization has failed to meet one or more obligations within one’s psychological contract in a manner commensurate with one’s contributions.” They reserve the term psychological contract violation to refer to the emotional and affective state, characterized by disappointment and anger that sometimes results from the belief that the organization has failed to adequately maintain the psychological contract (Robinson, 1996). According to this perspective, then, psychological contract violation refers only to those instances when employees feel betrayed by their organization’s failure to live up to the commitments it made to them.

Coyle-Shapiro (2001) in his research study on employee PCs found, for maintaining competitiveness, that many organizations changed their HR strategies in order to cope with external challenges. However, these HR changes often add additional pressures to the employees. In the meantime, if the organization is not able to fulfill their obligations to the employees, the balance of employer-employee relationship would be violated. A similar research was conducted in Taiwan by Nee (2000) supported the notion proposed by Coyle-Shapiro. The findings of the study stated that the employer-employee relationship was jeopardized when organizations encountered external challenges and failed to implement appropriate HR strategies. employee morale goes down, and the employees were dissatisfied. According to Huang’s research on (2002), human resource functions such as compensation system and training and development convey a strong messages that the organization expects employees to perform at the certain level as well as what the employees expect to get from the organization in return. These functions significantly affect employee perceptions toward the value of their organization.

Leadership Style

Leadership is the process by which a person exerts influence over other people and inspires, motivates, and directs their activities to help achieve group or organizational goals. Effective leadership increases an organization’s ability to meet all challenges, including the need to obtain a competitive advantage, the need to foster ethical behavior, and the need to manage a diverse workforce fairly and equitably (Moorhead & Griffin, 2004). There are many definitions and theories about leadership and leadership styles. In this particular study, the leadership styles developed by Stogdill (1962) at the Ohio State University in the late 1940s were applied. There are four combinations of the two dimensions – initiating structure behaviors and consideration behaviors.

Initiating structure reflects the extent to which the leaders attempt to organize work, work relationships, and goals. Leaders who engage in initiating structure make sure that work gets done, and the organization is effective and efficient (Lunenburg & Ornstein, 1991).

Consideration reflects the extent to which the leader maintains job relationships that are characterized by mutual trust, respect for subordinates, and regard for their feelings. A leader high in consideration listens to staff member and is approachable. They also truly look out for the well-being of their subordinates (John & Taylor V, 1999). Stogdill (1962) suggested that leaders exhibiting consideration and initiating structure behaviors can be grouped into four quadrants. The explanations of the four quadrants are as follow:

1. The Quadrant I leader is low on consideration and high on initiating structure, who is production-oriented and interested in getting the job done regardless of the fact that he or she is dealing with human beings.
2. The Quadrant II leader shows both high on consideration and initiating structure behaviors, and is considered to be both efficient and effective in managing people and tasks as well.

3. The Quadrant III leader is high on consideration but low on initiating structure. This kind of leader maintains a friendly relationship with the subordinates and is concerned about their welfare, but is ineffective in getting jobs done.
4. The Quadrant IV leader is low on both consideration and initiating structure. His or her management style is accompanied by group chaos and ineffectiveness.

Research Questions and Hypotheses

In order to have better understanding of employee perceived leadership styles towards their managers, the status of the employee PCs, and the relationship between the two, the present study was guided by the following four questions:

1. What employee PCs do the employees have in Nan-Tzu Industrial Park in southern Taiwan?
2. How do employees perceive the leadership styles of their managers?
3. Do demographic variables affect employee psychological contract and the employee perceptions toward managers' leadership styles?
4. Are there any relationships between the perceived leadership style of the managers and employee psychological contracts?

The descriptive analysis was utilized to answer question 1 and 2. In order to answer the third and the fourth questions, the hypotheses were proposed:

1. The demographic variables make no difference on employee PC tendency.
2. The demographic variables make no difference on employee perceptions toward leadership style of their managers.
3. Leadership style of the managers, as perceived by the employees, makes no difference on employee PC tendency.

Methodology

Research Design

The present study aimed at investigating the relationship between leadership styles and employee PCs in an industrial park in southern Taiwan. The current status of employee PCs and employee perceptions toward leadership styles of their managers were also examined. Questionnaires were adopted as sole data collection method, and were distributed to the participants by mail.

The Instrument of the Study

The psychological contract section of the instrument adopted the questionnaire "Perceived Organizational Support" developed by Eisenberger, Huntington, Hutchison & Sowa (1986) for the purpose of measuring the extent of participants' support to the organization for identifying the extent of the PC satisfaction of the participants. Ohio State University's "Leadership Behavior Description Questionnaire (LBDQ)" developed by Stogdill (1974) was adopted to measure the leadership styles of the managers. This part measures employees' perception towards the leadership styles of their managers. There were four categories of the leadership style: The overall Cronbach's α was .94.

Population and Samples

The population of the study was full-time employees including staff, supervisors, and managers (total number is 11,199) in Nan-Tzu Industrial Park in southern Taiwan. With a confidence level of .95 and a confidence interval of five, a sample sized of 261 participants was needed. Fifty companies out of 108 were selected through systematic sampling method, and the questionnaires were mailed to the HR managers who were asked to randomly distribute 30 questionnaires to their co-workers. There were 1,500 questionnaires distributed totally. The total number of return questionnaires was 346 with a return rate of 23.0% after eliminating invalid data. In which, the majority of respondents were females (56.9%), and 62.0% of the participants were single. The largest age group was 25-34 years of age (64.7%). More than half of them were college graduates (57.2%). More than half of the respondents worked for the current company for 1-5 years (56.4%). Thirty-six percent of the participants had 1-5 years of total work experience. 118 respondents (34.1%) worked as administrative clerks, and most of them (76%) were in entry-level positions. 257 participants (74.3%) worked for Taiwanese companies, and 101 participants (29.2%) worked for companies with more than 501 employees. 156 participants (45.1%) worked for electronic related manufacturers.

Findings

There were 205 participants (59.2%) reported that their PC satisfaction level were somewhat satisfied (mean scores were higher than the average mean (3.5) compared to 156 of them (40.8%) were not satisfied. 156 respondents (45.1%) believed that their managers were demonstrating high initiating and high consideration structure leadership style while 152 respondents (43.9%) reported that their managers' leadership style was high initiating and low consideration structure. 36 participants (10.4%) indicated that the leadership style their managers demonstrated was low in both initiating and consideration structure, while only 2 participants reported low initiating and high consideration structure leadership style of their managers.

H1: The demographic variables make no difference on employee PC satisfaction level.

One-way ANOVA was conducted for testing hypothesis one. The test results showed that age, marital status, position, company size, and type of business affected employee PCs (see Table 1). Therefore, hypothesis one was rejected (the table only showed the results of variables that are significant).

Sheffe post-hoc multiple comparisons were conducted afterward and found that there was a significant difference between the age group of 35-44 and the age group of 25-34. The older group held more satisfied PCs than the younger group. Married participants showed more favorable PCs than their counterparts. The higher the positions of the participants, the PCs were more satisfied. Moreover, the company size also played a significant role affecting employee PCs, that is, the smaller the companies are, the satisfaction level of employee PCs is higher. The results also found that traditional labor-intensive manufacturers had more satisfied PCs than those that are more hi-tech related.

Table 1. ANOVA Test for Demographic Variables and Employee PCs

Variables	df	F-value	p-value
Age	3	5.59**	.00
Marital status	1	3.58**	.00
Position	3	15.14**	.00
Company size	4	8.37**	.00
Type of business	4	3.05**	.00

**p <.01

H2: The demographic variables make no difference on employee perceptions toward leadership style of their managers.

Chi-square analysis was conducted to test the hypothesis 2 (see Table 2) since leadership styles were divided into four categories (Quadrant I, II, III, and IV). The test results indicated that age, years of working for the current company, and company size were significant factors affecting employee perceptions toward leadership style of their managers. Therefore, hypothesis two was rejected (the table only showed the results of variables that are significant).

Table 2. Chi-square Test for Demographic Variables and Leadership Styles

Variables	X ²	df	p-value
Age	20.94*	3	.04
Yrs w/ current co	39.74**	12	.00
Company size	22.25*	12	.03

*p <.05; **p <.01

H3: Leadership style of the managers, as perceived by the employees, makes no difference on employee PC tendency.

One-way ANOVA was conducted. The result indicated that when employees perceived different leadership styles of the managers, their PC satisfaction levels tended to be different (F= 25.54; p<.05) (see Table 3).

Sheffe post-hoc multiple comparisons were conducted afterward. The results indicated that when employees perceived that their managers demonstrate "high initiating and high consideration" leadership style, their PCs tended to be the most satisfied; while employees perceived "low initiating and high consideration" leadership style demonstrated by their managers, their PCs tended to be the least satisfied. The perceived leadership styles of "high initiating and low consideration" and "low initiating and low consideration" produced employee PCs that tended to be somewhat dissatisfied.

Table 3. ANOVA Test for the Effects of Leadership Styles on PCs

Leadership styles	Mean	S.D.	df	F	p-value
Quadrant II.	3.72	0.61	3	25.54**	.00
Quadrant I	3.46	0.48			
Quadrant III	2.32	0.45			
Quadrant IV	2.86	0.69			

** : p<.01

Discussions and Conclusions

Overall, the participants tended to have somewhat satisfied PCs, however, the satisfaction levels of employee PCs were not high (mean score 3.51). According to Rousseau (2001), individual determinants affecting PCs include experiences and expectations and these experiences and expectations may vary according to individual difference factors such as age, gender, level of education, etc (Guest & Conway, 1998). It is found, from the findings of the present study, that age, marital status, position, and company size, were determinants affecting employee PCs. The participants who are younger, unmarried, and with entry-level of positions had less satisfied PCs than their counterparts. This supports the findings done by Turnley & Feldman (1999) and Smithson & Lewis (2001) that the younger workers have different expectations from their counterparts which appear to reflect the changing realities of the labor market and the employment relationship. According to Herriot, Manning, & Kidd (1997), what younger workers look for is tangible rewards from the organizations. This might be able to explain why the PC satisfaction levels of the younger participants lower than their counterparts. However, the results could be a concern for the managers since most of the employees in the industrial park work fall into the categories of younger, unmarried, and with entry-level positions.

Marital status in one of the determinants of employee PCs that married ones had more satisfied PCs than those who are not married. Position was also one of the factors affecting employee PC satisfaction. The higher the positions participants had, the more satisfied PCs they held. This might probably be due to the extent of involvement that the participants had in the organization since their positions were involved with decision-making more than their counterparts. In addition, this study found that the smaller the company size is, the higher the satisfaction levels of PCs the employees had. This finding is opposite to the existing literature that employees in bigger companies hold more satisfied PCs than smaller companies since the bigger companies have longer history and the HR policies and benefits are better than the smaller ones (Deshpande & Golhar, 1994).

Almost 90% of the participants believed that their managers are demonstrating high initiating structure leadership styles with 45.1% of high consideration and 43.9% of low consideration, and interestingly, both produced higher PC satisfaction levels. According to the literature, high initiating structure and low consideration leadership styles produce high productivity but tended to generate higher employee grievance and turnover rates (Stogdill, 1957; Immegart, 1988). However, the findings of this study indicated that employee PCs were somewhat satisfied under the leadership style of high initiating structure and low consideration which produced the second higher satisfaction level of employee PC. Yet, one thing that needs to be considered is that the managers in the industrial park should be careful about their lacking of consideration because it might be detrimental to the relationship with the employees in the future.

The consideration styles have been associated with satisfied subordinates and fewer absences (Immegart, 1988); however, this study has overthrown the idea. High on consideration and low initiating structure leadership behavior was found to produce the lowest mean score (2.32) on employee PCs, which tended to be the least satisfied. According to the literature, this type of leaders concern more employees than work, and it is the least effective leadership style in getting work done (Stogdill, 1957), which is supported by the present study. Fortunately, however, this type of leaders was very few in this study (only 0.6%). Low consideration/low initiating structure leadership style, according to Stogdill (1957), produces low productivity and low employee satisfaction. From the findings of the study, only 10% of the employees indicated that their managers were practicing this leadership style and it did produce less satisfied PCs. Again, here proves that most of the managers in the Industrial Park tended to be demonstrating high initiating structure leadership style, that is, highly task-oriented. The notion of high both in consideration and initiating structure resulting in high satisfaction and performance among workers (Lunenberg & Ornstein, 1991) is supported by this study in that this type of leadership style produces the highest satisfaction level of PCs (3.72).

Therefore, it could be concluded, according to the results of the present study, that leadership style high in both consideration and initiating structure was the best in producing PC satisfaction. Moreover, high initiating structure leadership behaviors, regardless the extent of consideration, tended to be the most effective and well accepted by

most employees.

Implications for Practice

According to Davis & Newstrom (1998), employees with unsatisfied PCs tend to be low in involvement and less satisfied, and tend to be less committed to stay with the organization. The finding of the study indicated that younger workers, who worked in entry-level positions, seemed to have less satisfied PCs than their counterparts. This might be a concern for the managers in Nan-Tzu Industrial Park since most of the employees in the industrial park were fallen into this category. Therefore, it is suggested that organizations in the industrial park should provide programs indicating a clear career path and career development, and more training on teamwork and management skills for preparing those skilled younger workers climbing up the ladder in order to increase their willingness to stay with the organization.

According to the literature, psychological contract is defined as involving both parties to the exchange relationship (Rousseau & Wade-Benzoni, 1995), and based on exchange theory, organizations need to provide incentives that generate employees' willingness to contribute. Moreover, in the post-industrial workplace, leadership has been redefined as being grounded in relationships rather than execution of positional authority. Leadership is not just the legitimate positional authority granted by the organization, but is a process involving relationships and reciprocity with others. When organizations acknowledge including employees as collaborators rather than purely functioning employees, the psychological contract is a powerful determining factor of organizational success (Davis, 2003).

Thus, the organizations in Nan-Tsu Industrial Park should provide incentives include both tangible and intangible rewards such as reasonable salaries, work place safety, benefits, status, praises, and reasonable autonomy, opportunities of involvement and making decisions, etc (Griffin, 1998) , and particularly, the managers should often give employees verbal or physical praises and encouragement, show more consideration to their employees' feelings and needs, and motivate their employees by empowering them in order to increase their PC satisfaction level. Employees who receive more encouragement from the managers are proved to have higher satisfaction levels of PCs as well as higher productivity and work satisfaction (Argyris, 1960). Managers also need to be clearer and more explicit on mutual obligations and expectations and communicate them unambiguously. When people know what is going on and what they are expected to accomplish; and how they are evaluated, they would be more willing to develop better relationship with the organization.

Contributions to HRD and Recommendations for Further Studies

The most valuable finding of the study is that initiating structure leadership behaviors are proven to be effective on maintaining satisfaction of employee PCs in manufacturing type of businesses in Taiwan, regardless the extent of consideration behaviors managers demonstrated.

Another contribution this study made to the HRD field is to provide more literature in the relationship between leadership styles and employee PCs. The present study also found that age is a significant factor that affects employee PCs; therefore, how to create an employee PC that fits both organizations and younger employees is an important topic. Thus, more attention is needed to understanding the development of psychological contracts to the age element.

Some findings related to leadership styles in the present study seemed opposite with the existing literature. Are these differences caused by national cultural differences? Or purely because of the nature of labor-intense orientation of the companies that were investigated? It would be interesting to compare leadership styles between western and eastern countries regarding the effects of cultural differences on leadership. Further studies could also focus on comparing different industries in Taiwan for gaining a better understanding of leadership styles practicing in Taiwan.

Limitations

The study solely aimed at investigating of the leadership styles and PCs, therefore, cultural influence was not discussed. Moreover, many other factors impacting on employee PCs other than leadership styles, such as organizational citizenship, work satisfaction, and so forth were also excluded in this study. The participants of the present study were full-time employees in an industrial park where mostly are manufacture type of organizations. The homogeneity of the participants limits the generalization to other types of industry.

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