

# The Importance of Psychological Contracts through Leadership: The Relationship between Human Resource Strategy and Performance

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**Abstract**—The purpose of this research is: a) to investigate how the HR practices influence psychological contracts, b) to examine the influence of psychological contracts to individual behavior and to contribute individually, c) to study the psychological contract through leadership. This research using mixed methods, qualitative and quantitative research methods were utilized to gather the data collected using a qualitative method by the HR Manager who is in charge of the trainings from the staffs and quantitative method (survey) by using questionnaire was utilized to draw upon and to elaborate on the recurring themes present during the interviews. The survey was done to 400 staffs of the company. The study found that leadership styles supporting the firm's HR strategy is the key in making psychological contracts that benefit both the firm and its members.

**Keywords**—Human Resource Performance Practice, and Leadership, Psychological Contracts, Relationship of Managers and staffs.

## I. INTRODUCTION

**K**HALID Isaac, manager of a sales department, has worked in sales department to develop the training for the competency of the sales staffs to help on how to talk with the customers. Reference [25] experienced workers often participate to focus the groups to advice on how to make this telephone knowledge more effective to convince the customer. Those agents who perform satisfactory, Khalid offers a retention bonus for every three months they remain on the job. In the year 2010, during an economic crisis, he laid off 12 percent of the sales department.

Rajiv Batra, manager of service department in an automobile company. [26] HR recently introduced training and development fund that requires manager in taking competencies courses. Batra has told his workshop supervisor that the company prides is the place to work and supports them in developing skills useful to it in the long term. He asks all staff seeking training and development funding to develop their career path in order the funds to be granted.

In point of fact, both managers are acting strategically. The sales department's HR strategy is to stress adaptability in the face of market changes, along with consistency in the public face the firm presents to the customer. The workshop depends

on high value-adding contributions from its employees, who require both advance skills and the ability to work well together in order to achieve research and development goals. Khalid's leadership involves in giving rewards base on employee performance. Rajiv leaderships convey a compelling vision for future growth with the company. Both managers support the specific HR practices in their companies use to execute strategy, yet both companies and their practices are very different. Just imagine if their approaches to leadership were interchanged. Let Khalid try to motivate his employees to create career development plans and Rajiv try the structure for the day-to-day duties and responsibilities of the research scientists while offering retention bonuses. The focus of this article is that the support that line managers' leadership can provide to HR's strategy and practices.

Firms perform better when their HR practices have strategic purpose. [1] The task of strategic human resource management (SHRM) is for recruiting and managing people that help the firm succeed, Strategic HR practices are brought to life in the day – to- day conduct of line managers which impacts employee' beliefs and behaviors. [2], [3] The primary vehicle managers have for making firms successful is the psychological contracts they create with workers. [4] Though SHRM scholars repeatedly emphasize how important managers are to HR practice is written on what managers can actually do to make strategically appropriate psychological contracts. [5] Managerial behavior provides the relationship between HR practices and firm performance, to fulfill the firm's psychological contracts with its employees. Psychological contracts refer to what employees believe they owe their employer as well as what they believe they are owe in return. [6] Contract beliefs and their fulfillment are strongly related to employees' job performance, employment duration, and extra-role contributions. [7] Study after study demonstrates that line managers are the primary contract makers for employees. [8] This article lays out a framework drilling down into the critical middle of the HR system, where HR practices are acted on and experienced by line managers and their employees. To send strategic messages, managers need the support of coherent HR practices.

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## II. LITERATURE REVIEW

### A. Linking SHRM to Performance

Practices that enhance employee and firm performance have been the dominant SHRM theme in the past two decades. [9] This focus followed Huselid's seminal research, which demonstrated the link between adopting SHRM practices and higher firm performance. This SHRM-performance relationship is reported across a variety of industries. [10] A connection clearly exists, but what exactly is being connected through this relationship remains somewhat of a mystery. Despite at least 104 published studies by 2005, SHRM's progress has been limited by loose theory that fails to specify how HR practices generate individual or unit-level results. [9], [11] Critics have been particularly concerned with the need to identify the role that employees play in linking HR and performance. [3] This article extends current theory by highlighting the intervening role of local leadership behavior and psychological contracts in realizing the promise of SHRM.

### B. Failure Role of Line Managers and Leadership

Leadership, the way the firm's agents influence the behavior of its members, is a relatively invisible and often neglected facet of a firm's HR system. Leaders can directly convey what efforts are needed on the part of employees and what they can expect in return. Leadership is known to impact business strategy implementation, long-term firm performance, and financial success. [12] By virtue of what managers pay attention to, measure, and control, they exert huge sway over how employees direct their efforts, how well they perform, and the goals they pursue at work. The concept of leadership style helps identify the kinds of leader actions best aligned with strategy.

Leadership styles refer to patterns of actions that influential people use to shape others' behaviors. The transactional style is a set of leader behaviors that give structure to the work and job requirements employees need to accomplish. The function is to develop, clarify, and support appropriate work methods and results. As a result, leaders are behaving transnationally set specific, measurable goals; use mechanisms such as direction and task structuring to clarify appropriate employee behavior and make it easier to demonstrate consistently; coordinate the work individuals do; and monitor their accomplishments and deliverables. This style derives from each efficacy from using the manager's power to reward employees.

Before we turn to address how manager's leadership styles influence psychological contracts, we note two key findings from HR research on the strategy-leadership-performance connection. First, transformational leadership leads to positive employee attitudes and constructive workplace behavior. It promotes individual and firm performance. [13] With the exception of contingent rewards, the effects of transactional leadership are less consistent and more situations-dependent, with negative effects in some circumstances and positive

effects in others. [14] Where specific direction and structure are required, transactional leadership has substantial impact on employee performance. Second, leaders can display both styles, using one to communicate overall vision and imbue work with meaning and the other to provide coordination, direction, and structure for individuals or groups of employees required it.

Consequently, a more comprehensive analysis of the interplay between leadership styles and HR strategies is needed. In this article we recognize that just as certain HR practices might be suited to a given employee group or business strategy, leadership styles, too, needs to be appropriately aligned. The real issue is the degree to which leadership styles are congruent with SHRM practices and lend support to strategically appropriate psychological contracts.

### C. Linking HR Practices to Individual Performance: The Role of the Psychological Contract

The psychological contract refers to an individual's (e.g. employee's) beliefs regarding mutual obligations between that person and in this context, the employer. [15] These obligations take many forms, from loyalty and job security to no commitments whatsoever. Two core types of obligations are prevalent economic or monetary psychological contract terms and relational or socio-emotional ones. [16]

These monetary obligations involve compensation for specific forms of labor, as expressed by "a fair day's work for a fair day's pay." Where money is the dominant concern, psychological contracts tend to be explicit in their terms. Obligations between workers and employers are relatively few and far between where predominantly monetary contracts are concerned.

### D. How HR Practices Influence Psychological Contract

The psychological contract constitutes what employees understood to be the firm's commitments to them and what they owe in return. These understandings arise both due to explicit promises from HR and managers as well as from the beliefs employees acquire by talking with coworkers. [17] [18] Explicit obligations are conveyed by HR practices as exemplified by formal training, talent management, or succession programs where company representatives refer to future opportunities and programs for within firm promotions. The same is true for written commitments expressed in contract letters and personnel manuals.

## III. METHODOLOGY

This study is a descriptive-normative research by a mixed methods research design is a procedure for collecting, analyzing, and "mixing" both quantitative and qualitative research and methods in a single study to understand a research problem followed by the qualitative. The survey was done to 400 staffs of the company. Qualitative Approach by the in-depth interview method the HR Manager who is in charge of the trainings from the staffs for 3 managers Stratified sampling by the size of company (Small, Medium,

Large) for in depth interview for this research is the manager of sales department and the manager of service department in an automobile company.

The data analysis is included frequency, percentage, mean, standard deviation, and multiple regression analysis. Data were analyzed by using Statistical Package for the Social Sciences for the overview of this research will be following by the conceptual frame work below. [19]

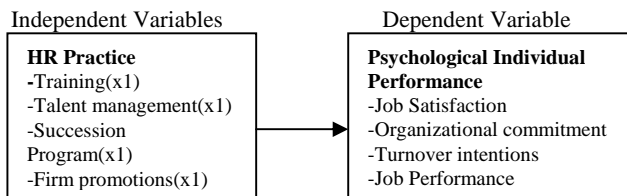


Fig. 1 Research Conceptual Framework

#### IV. FINDINGS

The findings revealed that the majority of the staffs were female with the age between 31-40 years old. Most of the respondents were married with an undergraduate degree. The average income of the respondents was 20,001- 55,000 baht per month. [20] The average experience in the field of Staffs was about 5 years. Independent learning variables of skill was rated as highest efficiency while independent variables of individual performance were rated as high efficiency. For the dependent variables of job satisfaction, Organizational commitment, Turnover intentions, Job Performance was rated as high effectiveness and the quantity of workload and punctuality were rated as highest effectiveness. In answer to the hypotheses question, the result revealed that the three factors Training (X1), Talent management (X3), Firm promotions(X4) and Succession Program had influence on the Psychological Individual Performance effectiveness (Y).

The hypothesis testing results disclosed that there were three independent variables which had an influence on job Psychological Individual Performance (Y). These three variables were Training(x1), Talent management (X3), and Succession Program (X4). In this section, it is imperative to discuss more about these three factors. [21]

1. The variable of HR Practice from training had an influence on Psychological Individual Performance effectiveness. This is because individual talent management gained contributes to the ability of the organization to compete in the market and be able to achieve the objectives set by the organization. However, human resources training and development need to be improved from the old style of training such as one or two trainings a year and train only what is related to the job duty to offer training regularly with a broader perspectives such as an overlapped function of work. Modern organizations should promote the opportunity and the environment to learn and develop new knowledge. [22] Nowadays, information technology plays an important role in the success of an organization and

learning should be provided with the support of Job Satisfaction management .The results of Training increased means staffs in this area can have a high level of understanding of HR manager and requirement and be able to finish their work assignment quickly and with high quality. [23] This result concurred with the study of which studies the relationship between HR Practice and job performance effectiveness and found that there was a high relationship between the two variables through factor of Talent management.

2. The variable of skill from learning efficiency had an influence on an job performance effectiveness. This is because skill is an ability of a person to set up a system, understand information, be able to perform analysis and the ability to recognize the day-to-day problems or resolve unfamiliar problems without much difficulty [24]. This means the higher the skill of the local staffs, the better job performance. [8] This result found that there was a high relationship between the two variables through factor of skill.
3. The variable of attitude from learning efficiency had an influence on staffs' job performance effectiveness. This is because the talent management of learning makes a person to be an open minded and willing to listen patiently. This factor helped the local staffs to serve the customer better and more effectively. A positive attitude is a valuable asset for any organization since customers will be happy when the staffs are so willing to listen and helpful. This result also concurred with the study of which found that there was a high relationship between the two variables through factor of Job Performance.

#### V.DISCUSSION

The study found that leadership styles supporting the firm's HR strategy is the key in making psychological contracts that benefit both the firm and its members. When managers' styles are not synchronizing with HR strategy, this mismatch can lead to poorer performance through ineffective and unfulfilled psychological contracts with workers. Practices that enhance employee and firm performance have been the dominant SHRM theme in the past two decades. This SHRM-performance relationship is reported across a variety of industries. A connection clearly exists, but what exactly is being connected through this relationship remains somewhat of a mystery how HR practices generate individual or unit-level results Critics have been particularly concerned with the need to identify the role that employees play in linking HR and performance.

#### VI. RECOMMENDATION AND FUTURE STUDIES

When viewing the finding's result, the three factors of HR Practice, Training, and Talent management have an influence to the Psychological Individual Performance. There are three recommendations from this paper in this matter.

1. It is important for the local administration and high levels of HR Practice to provide more training sessions and various kinds of knowledge to the staffs such as practical training activities to increase more Psychological Individual Performance [4] and provide scholarship for people who have ability to learn in the higher levels.
2. Since the Talent management is also the important variables, the local administration and high level of Psychological Individual Performance should pay more attention to how to enhance the skill of the staff. There are many ways to enhance the skill of local staff such as to promote and support the Firm promotions to use more innovative ways and updated information technology to resolve problems.
3. Turnover intentions that attitude plays an important role in the success of the Psychological Individual Performance, the local staff and high levels of management should promote and maintain positive attitude in the organization and find the ways to change any negative attitude in the organization. In short use policy to create a positive environment that suitable to serve the local public.

#### ACKNOWLEDGMENT

The author would like to thank Assoc. Prof. Dr. Luedech Girdwichai, The President of Suan Sunandha Rajabhat University, Bangkok, Thailand for financial support. The author would like to thank Asst. Prof. Dr. Prateep Wajeetongratana, the Dean of Faculty of Management Science for the full support in this research.

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