

# DO I CARE IF MY BOSS DOES THE RIGHT THING? AN ETHICAL LENS ON PSYCHOLOGICAL CONTRACT FULFILLMENT

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## INTRODUCTION

Although there is considerable interest in psychological contract theory, the literature focuses almost exclusively on antecedents of psychological contract fulfillment that are transactional or relational in nature (Macneil, 1985; Rousseau, 2001; Rousseau & McLean Parks, 1993). Consistent with emerging theory arguing that the psychological contract also contains an *ethical* obligation (McLean Parks & Schmedemann, 1994; Thomas, Au, & Ravlin, 2003; Thompson & Bunderson, 2003), we propose that ethical leadership is an antecedent of psychological contract fulfillment (PCF) and that fulfillment mediates the relationship between ethical leadership and employees' affective (i.e., turnover intentions) and behavioral (i.e., OCB) commitment. Further, consistent with our ethical approach to the psychological contract, we hypothesize that employee moral identity strengthens the positive relationship between ethical leadership and PCF, and that PCF mediates the interaction between ethical leadership and moral identity on affective and behavioral commitment. We use two field studies to test our theoretical model.

### **Ethical Leadership, Psychological Contract Fulfillment and Commitment**

If ethical obligations do indeed underlie the psychological contract, then ethical leadership will serve as a primary means by which leaders, as agents of the organization, can fulfill these obligations. To be viewed as an ethical leader, a leader must be seen as an attractive, credible and legitimate role model by others, and demonstrate normatively appropriate behavior by making ethics salient (Brown et al., 2005). As such, ethical leadership goes beyond holding moral traits (e.g., conducting oneself in an ethical manner); ethical leaders also promote ethical conduct by talking about the importance of being ethical and managing morality using systems such as rewards and punishments (Brown & Treviño, 2006).

We propose that ethical leadership fosters PCF. The deontic theory of organizational justice argues that individuals are motivated by a sense of obligation, duty and moral virtue (Cropanzano, Goldman, & Folger, 2003; Rupp & Bell, 2010). This theory suggests that individuals desire others to behave in ways that are consistent with morality and constrain their behavior to do so (Folger, 1998, 2001; Kant, 1964). Moreover, they expect others to also abide

by these widely-held principles so that it is possible for humans to co-exist with one another in a well-ordered society. When employees see leaders behaving in ways that are consistent with morality, they view their organization as upholding this obligation to “do the right thing.” For example, by disciplining employees who violate ethical standards, employees are likely to perceive that their organization abides by generally-accepted norms about how to behave (Folger, 1998, 2001). Similarly, by discussing business ethics or values with employees and defining success not just in terms of its results but also by how it is obtained, employees are likely to believe that their organization is committed to moral values (Thompson & Bunderson, 2003). As such, employees’ awareness that their leader is adhering to and emphasizing ethical principles leads them to believe that their organization is meeting its obligations to them, even if the behavior does not directly impact their own welfare. This is consistent with the deontic theory of organizational justice as individuals’ cognitive processes are characterized by universal ethical principles, which go beyond those of self-interest (Kant, 1964; Rupp & Bell, 2010). By behaving in ways that are normatively appropriate and promoting ethical conduct, leaders enable their employees to perceive that their organization is fulfilling its obligations to them:

*Hypothesis 1:* Ethical leadership will be positively related to PCF.

PCF is likely to influence employees’ affective (i.e., turnover intentions) and behavioral (i.e., OCB) commitment. Turnover intentions refer to an employee’s desire or willingness to leave an organization (Lee & Mowday, 1987). Organizational citizenship behavior (OCB) is defined as behavior that contributes to “the maintenance and enhancement of the social and psychological context that supports task performance” (Organ, 1997, p. 91). Drawing on social exchange theory (Blau, 1964), we hypothesize that employees who perceive PCF will have lower turnover intentions and increased OCB. Social exchange theory suggests that relationships are governed by the norm of reciprocity, and when someone is pleased by the behavior of another, the person aims to perpetuate and extend this positive relationship by making greater contributions as part of the social exchange (Blau, 1964; Gouldner, 1960). When employees believe that they have received what was agreed upon or even more than what was promised, they engage in actions that increase their contributions to the organization. Prior studies have found that PCF increases employees’ OCB as they feel compelled to behave in ways that benefit the organization (Henderson et al., 2008; Turnley et al., 2003). Similarly, Zhao and colleagues’ (2007) meta-analysis demonstrates that psychological contracts that are not fulfilled are associated with increased turnover intentions. Because turnover intentions and OCB constitute forms of affective and behavioral commitment through which employees can reciprocate the organization’s fulfillment of obligations, we propose that PCF is negatively related to turnover intentions and positively related to OCB. Therefore, we hypothesize:

*Hypothesis 2:* PCF will be negatively related to (a) turnover intentions, and (b) positively related to OCB.

Ethical leadership can impact employee contributions to the organization in a number of ways. Theories of social learning (Bandura, 1977, 1986) and social identity (Tajfel, 1974; Turner, 1975) have been used to explain how ethical leadership is positively related to employees’ attitudes and behaviors (Brown et al., 2005; Walumbwa et al., 2010). However, we suggest that PCF serves as an additional conduit through which ethical leadership influences

affective and behavioral commitment. When employees observe ethical leadership, they perceive greater PCF as their organization satisfies its ethical obligations to them. As a result, employees are inclined to reciprocate the positive actions of their organization by enhancing their commitment to the organization in the form of lower turnover intentions and higher OCB:

*Hypothesis 3:* The relationship between ethical leadership and (a) turnover intentions, and (b) OCB will be mediated by PCF.

### **The Moderating Role of Moral Identity**

Moral identity refers to a self-schema organized around a set of moral traits such as honesty, compassion, and fairness (Aquino & Reed, 2002). If ethical leadership positively affects PCF due to the organization meeting its ethical obligations to employees, then we are likely to observe a stronger relationship for employees with a high moral identity because they have a greater propensity towards attending to cues surrounding ethics. Thus, in an effort to highlight the role of ethical obligations in PCF, we examine how employees' moral identity affects the relationship between ethical leadership and PCF, and its subsequent effects on turnover intentions and OCB. Although prior work has found that moral identity serves as an antecedent of ethical behavior (e.g., Mayer, Aquino, Greenbaum, & Kuenzi, 2012; Reynolds & Ceranic, 2007), we propose that employees' moral identity moderates the relationship between ethical leadership and turnover intentions and OCB, as mediated by PCF. Individuals differ in the extent to which their moral identity is central to their overall self-definition, which affects the likelihood of moral considerations being activated when they are faced with moral situations (Aquino, McFerran, & Laven, 2011; Shao, Aquino, & Freeman, 2008).

Building on this research, we propose that employees with a high moral identity will have stronger affective reactions to ethical leadership for a number of reasons. Because these employees have moral self-schemas that are readily activated, they hold higher expectations of their leaders behaving in ways that fulfill ethical obligations, and they pay particular attention to whether their leaders behave in an ethical manner. As such, ethical leadership is likely to have a stronger positive effect on PCF as these individuals are highly attuned to their leaders' ethical actions. Ethical leadership may signify to employees with a high moral identity that their organization is meeting its ethical obligations and enhances PCF, which increases employees' desire to reciprocate these positive actions by lowering their turnover intentions.

*Hypothesis 4a:* The relationship between ethical leadership and PCF will be moderated by moral identity, such that the positive relationship between ethical leadership and PCF will be stronger for those with a high moral identity than a low moral identity.

*Hypothesis 4b:* The relationship between ethical leadership and turnover intentions, as mediated by PCF, will be moderated by moral identity, such that the negative relationship between ethical leadership and turnover intentions will be stronger for those with a high moral identity than a low moral identity.

At the same time, we expect the moderating effect of moral identity to produce a different pattern of results when examining behavioral reactions. Although moral people may respond to moral situations by having malleable attitudes, they may be less inclined to alter behaviors that

are consistent with their identity. For example, if a moral identity is part of one's self-definition, they are likely to still engage in OCB because they should still act in ways that exemplify moral traits such as generosity and helpfulness (Aquino et al., 2009). Because of this, even when they experience low ethical leadership, employees with a high moral identity are unlikely to lower their OCB. Thus, while low ethical leadership has a detrimental effect on PCF for employees with a high moral identity, they are still likely to maintain citizenship behaviors because it is central to their self-concept.

In contrast, while employees with a lower moral identity are less likely to perceive the benefits of ethical leadership because being ethical is less central to their self-concept, these employees should still be influenced by ethical leaders so that they perceive higher levels of PCF. In other words, employees low in moral identity are still affected by ethical leaders in that they experience higher levels of PCF than if they did not have an ethical leader. In turn, employees low on moral identity who also have an ethical leader should experience a sense of PCF that motivates them to reciprocate the actions of the leader by increasing their behavioral commitment (i.e., by increasing OCB). Thus, we argue that ethical leadership has stronger behavioral reactions on employees low on moral identity—by fulfilling these employees' psychological contracts, they are more likely to give back to the organization in ways that they otherwise would not. We therefore propose the following:

*Hypothesis 4c:* The relationship between ethical leadership and OCB, as mediated by PCF, will be moderated by moral identity, such that the positive relationship between ethical leadership and OCB will be stronger for those with a low moral identity than a high moral identity.

## OVERVIEW OF STUDIES

We test our hypotheses in two field studies. In Study 1, we test whether PCF mediates the relationship between ethical leadership and turnover intentions using two waves of lagged data in a multinational company. In Study 2, we build on our results by examining our full moderated mediation model, and test whether PCF mediates the relationship between the interaction of ethical leadership and moral identity, and turnover intentions and OCB. Furthermore, in addition to testing our model, we measure leader-member exchange (LMX) and idealized influence to control for relational and transactional obligations and examine the unique effects of ethical leadership on PCF, respectively. In sum, we seek to constructively replicate our findings using multiple settings and samples (Lykken, 1968).

## STUDY 1 METHOD

We hypothesize that ethical leadership will be positively related to PCF, and PCF will be negatively related to turnover intentions. Furthermore, we predict that PCF will mediate the relationship between ethical leadership and turnover intentions. To test our hypotheses, we recruited six hundred eighty three employees from a Fortune 100, multinational company that administers health insurance, headquartered in the United States. At Time 1, we received responses from 483 employees for an estimated response rate of 70.7%. One month later at Time 2, we received responses from 343 employees of the original Time 1 respondents for an effective response rate of 71.0%. We tested our theoretical model using the full sample of 343 respondents

who completed both study waves. Employees' average age was 37 years, average tenure was 50 months, 77% were female, and 57% were Caucasian. All survey measures were completed by employees, and included supervisor ethical leadership (Brown et al, 2005;  $\alpha = .96$ ), PCF (Robinson & Morrison, 2000;  $\alpha = .88$ ) and turnover intentions (Hom, Griffeth, & Sellaro, 1984;  $\alpha = .82$ ). We also controlled for employee tenure.

## STUDY 1 RESULTS AND DISCUSSION

Hypotheses were tested using hierarchical regression, and we used the bootstrap procedure (Preacher & Hayes, 2008) to test for mediation. We found that ethical leadership is positively related to psychological fulfillment ( $\beta = .52, p \leq .001$ ), and PCF is negatively related to turnover intentions after controlling for tenure and ethical leadership ( $\beta = -.61, p \leq .001$ ), supporting both Hypothesis 1 and 2a. Bootstrap analyses enabled us to generate 95% bias corrected and accelerated confidence intervals to test for the indirect effect of ethical leadership on turnover intentions through PCF. Our results indicate that the indirect effect of ethical leadership on turnover intentions through PCF was significant ( $\beta = -.32, p \leq .001$ ). Furthermore, the 95% confidence interval for PCF is  $[-.50, -.18]$ , which indicates that PCF is a mediator as its confidence interval excludes zero. Therefore, our results lend support for Hypothesis 3a as PCF partially mediates the relationship between ethical leadership and turnover intentions.

## STUDY 2 METHOD

Our second study consisted of 298 focal employee-supervisor dyads employed part- or full-time in the United States by businesses in a variety of industries, including construction, education, entertainment, defense, finance, government, health care, hospitality, law, manufacturing, and retail. Of the focal employees, 45% were female, and 31% were full-time employees. Their average age was 23.9 years, 63% were Caucasian, 86% were in non-management positions, and their average organizational tenure was 4.0 years. Of the supervisors, 41% were female, and 92% were full-time employees. Their average age was 37.6 years, 74% were Caucasian, and their average organizational tenure was 8.2 years. Focal employees completed the direct report survey assessing ethical leadership ( $\alpha = .95$ ), moral identity (Aquino & Reed, 2002;  $\alpha = .87$ ), PCF ( $\alpha = .89$ ), control variables (i.e., leader-member exchange, idealized influence, organizational tenure, work status) and turnover intentions ( $\alpha = .83$ ). In a complementary online survey, supervisors rated the focal employees on the other dependent variables, OCBI and OCBO (Lee & Allen, 2002;  $\alpha = .95$ ).

## STUDY 2 RESULTS AND DISCUSSION

As in Study 1, hypotheses were tested using hierarchical regression, and we used the bootstrap procedure to test for mediation. We found that ethical leadership is positively related to psychological fulfillment ( $\beta = .69, p \leq .001$ ), and PCF is negatively related to turnover intentions after controlling for tenure and ethical leadership ( $\beta = -.38, p \leq .001$ ), supporting both Hypothesis 1 and 2a. PCF is positively related to OCBO ( $\beta = .17, p \leq .05$ ) but not OCBI ( $\beta = .12, p > .05$ ), providing partial support for Hypothesis 2b. Bootstrap analyses indicate that the indirect effect of ethical leadership on turnover intentions through PCF is significant ( $\beta = -.19, p \leq .001$ , 95% CI  $[-.33, -.07]$ ). However, using the same procedures, we did not find support for the

indirect effect for OCB as PCF did not significantly relate to OCB (OCBI:  $\beta = .035, p > .05$ , 95% CI [-.03, .11]; OCBO:  $\beta = .049, p > .05$ , 95% CI [-.02, .13]). Thus, we have support for Hypothesis 3a but not 3b.

Hypotheses 4a-4c predicted moderated mediation. To evaluate these hypotheses, we used the procedure developed by Preacher and colleagues (2007) using bootstrapped estimation of conditional indirect effects. We found that the indirect effect of ethical leadership through PCF is significant for turnover intentions among employees who were high on moral identity ( $\beta = -.32, p \leq .001$ , 95% CI [-.58, -.13]), and those who were low on moral identity ( $\beta = -.20, p \leq .01$ , 95% CI [-.39, -.06]). The simple slopes analyses demonstrate that ethical leadership has a strong negative association with turnover intentions at high levels of moral identity ( $\beta = -1.01, p \leq .001$ ), but at low levels of moral identity, the simple slope is not significantly negative ( $\beta = -.13, ns$ ). Thus, Hypothesis 4a-4b was supported. We then tested for the conditional indirect effect for OCBO by constructing 95% confidence intervals using bootstrapped analyses. For OCBO, the conditional indirect effect of ethical leadership on OCBO is significantly positive among those employees who were high on moral identity ( $\beta = .16, p \leq .05$ , 95% CI [.03, .33]), and low on moral identity ( $\beta = .09, p \leq .05$ , 95% CI [.02, .21]). Furthermore, simple slopes analyses that reveal that the relationship between ethical leadership and OCBO is significantly positive for employees with a low moral identity ( $\beta = .58, p \leq .001$ ), but for those with a high moral identity, the simple slope is not significantly positive ( $\beta = .16, ns$ ). Accordingly, we found support for moderated mediation for OCBO (Hypothesis 4c).

## GENERAL DISCUSSION

Our research demonstrates the important role of ethics in the psychological contract. Across two field studies, we found support for PCF as an important mechanism for explaining the effects of ethical leadership on employees' affective and behavioral commitment. In Study 1, ethical leadership was positively related to PCF, which in turn was negatively related to turnover intentions, and we found that PCF mediated the relationship between ethical leadership and turnover intentions. Study 2 replicated the findings of Study 1 and demonstrated the unique effects of ethical leadership on turnover intentions and OCB. We showed that even after controlling for leadership constructs associated with transactional and relational obligations (i.e., LMX) and sharing conceptual overlap with ethical leadership (i.e., idealized influence), PCF still mediated the relationship between ethical leadership and turnover intentions. Moreover, employees' moral identity strengthened the positive relationship between ethical leadership and PCF, suggesting that employees with a higher moral identity experience greater PCF when leaders demonstrate ethical leadership. With respect to turnover intentions and OCB, moral identity strengthened the negative relationship between ethical leadership and turnover intentions when moral identity was high versus low, but moral identity strengthened the positive relationship between ethical leadership and OCBO when moral identity was low versus high, as mediated by PCF. Thus, we found converging support for the role of ethics in PCF. Consistent with Thomas, Au and Ravlin (2003) who suggested that "doing the right thing" is likely to serve as a basis for PCF, our findings highlight that employees care about more than personal obligations; they also care about being a part of ethical organizations.

## REFERENCES AVAILABLE FROM THE AUTHORS