

An Examination of How Leadership Styles Shape Psychological Contract and Organizational Value

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ABSTRACT

Organizational leadership is important in influencing employees' attitudes, behaviours and perceptions. Psychological Contracts and Organizational values are two organizational factors which are impacted by leadership and which are important as they shape employee commitment, trust and workplace culture. The unspoken expectations and obligations between employees and employer are psychological contracts, and shared beliefs and principles that influence organizational behavior are organizational values. The study adopted a descriptive research design to analyze the influence of leadership styles on psychological contracts. Primary data were collected from 100 respondents using a structured questionnaire. The respondents were selected through the convenience sampling technique, considering their accessibility and willingness to participate in the study. Leadership styles have an impact on employee interpretation of the value system, fairness and promises of the organization. The article analyzes the relationship between the leadership mode, psychological contract and organizational values. It discusses transformational, transactional, ethical leadership and authoritative leadership and how they affect employee perceptions and organizational culture. The study emphasizes that good leadership, in turn, creates positive psychological contracts and reinforces organizational values, which foster employee satisfaction, engagement, and organizational performance.

Keywords *Recognition and Support, Employee Empowerment and Participation, Communication and Transparency, Trust and Credibility and Ethical Leadership and Role Modelling.*

INTRODUCTION:

Organizations are now working in a highly dynamic and competitive environment where human resources are a major source of competitive advantage. Effective management of these resources is a key part of leadership's role as leadership affects employee motivation, organization culture and workplace relationships. In addition to formalized work contracts, workers form psychological contracts that are established through the perceived promises and expectations from the organization. The importance of these contracts cannot be overstated in terms of the attitudes and behaviors of employees. Meanwhile, shared values serve as the basis for organizations to make decisions, act ethically, and create a unified culture. Leaders demonstrate these values in their actions and decisions and communicate and reinforce these values. Thus, leadership styles

significantly influence the psychological contract and values in an organization. The article offers insights into how leadership styles can impact psychological contracts and organizational values and how these impacts relate to organizational effectiveness.

Understanding Psychological Contracts

In the organizational literature, psychological contract was a term used to describe the unspoken and unstated expectations held by employees and employers. Psychological contracts, unlike formal employment contracts, involve perceptions of mutual obligations, including opportunities for growth, fair treatment, job security, recognition and organizational support. Employees will be more likely to show higher levels of engagement, job satisfaction, and organizational citizenship behavior when organizations are caring and offer promotion opportunity. On the other hand, when

relational contracts are violated, one may feel betrayed, lose trust and commitment. Relational psychological contracts are maintained through effective communication, supportive leadership and fair treatment. These contracts help significantly with employee retention, harmony in the work place, and overall effectiveness of the organization. The management style of managers influences the organization's values communicated and reinforced in the workplace. Leadership is therefore a key determinant in the creation of robust psychological contracts, a positive organizational culture, high employee satisfaction and sustainable organizational success in today's dynamic business landscape.

Figure: 1



Transactional Psychological Contracts

Transactional psychological contracts are the short-term and economic expectations that are present between employer and employee. These contracts are predominantly based on material exchanges like work performance rewards, bonuses, job security, incentives and salary. An employee wants to be fairly rewarded by an organization for the work that he/she performs, his/her skills and his/her productivity; an organization wants to have efficient employees, who will execute the jobs assigned to them and achieve organizational goals. Typically, transactional contracts are only as attached as the need for a specific measurable and limited obligation. These types of contracts are typical in an organization where a person's performance is tied to their rewards/outcomes. If the employers meet these expectations, they are more likely to stay motivated and productive. If these are not fulfilled, however, one might feel that there has been a breach of the contract and, in turn, become dissatisfied, committed less, and perform

less well. This means that fairness, transparency and consistency are critical to the preservation of positive transactional psychological contracts in work.

Relational Psychological Contracts

Relational psychological contracts are formed through long-term relationships between employees and organizations and are characterized by mutual trust, loyalty, support and commitment. Relational contracts are not just economic contracts, but instead they emphasize the socio-emotional aspect. Employees look for opportunities for growth, development, recognition, respect, and organizational support, employers look for loyalty, dedication etc. and a long term commitment from employees. These contracts build deep emotional connections that inspire workers to buy into the organization's objectives and philosophy.

Leadership Styles and Their Influence

Leadership style is the manner and personality displayed by leaders in order to influence, guide and motivate employees to contribute in the organization so as to accomplish the required action. The leadership behaviours have a distinct and significant impact on the attitudes, relationships, culture and performance of employees. Leadership affects employees' perceptions of the organization in terms of support, fairness, trust and commitment, which in turn determines the psychological contracts and organizational values. Positive work environments are established by effective leaders who communicate clear expectations, offer support, and foster employee engagement. Transformational, servant, and ethical leadership can create trust, collaboration, and innovation, whereas transactional leadership is focused on performance and accountability. On the other hand, an authoritarian leadership style can lead to discipline, but it can also decrease employee autonomy and engagement.

Transformational Leadership

Transformational leadership is a style of leadership that can inspire and motivate employees to perform at a higher level and take part in their own growth through an inspiring vision and development of personal growth. Transformational leaders inspire, stimulate intellectually, consider individuals and influence through idealized influence. They stimulate creativity, innovation and lifelong learning and help to motivate employees to be committed and involved. These leaders cultivate excellent relationships with followers through being attuned to people's needs and facilitating their development. Transformational leadership is closely linked to empowering employees and encouraging them to participate in decision-making, both of these factors contribute to improved employee motivation and engagement. The employees working under the transformational leaders are more likely to show more commitment towards the organization's goals and willing to go the extra mile. This approach to leadership is among the most effective ones under dynamic conditions that require adaptability and innovation. Transformational leadership plays a crucial role in enhancing the effectiveness of an organization, employee satisfaction, and the establishment of a positive and sustainable

organizational culture by fostering trust, enthusiasm, and shared vision.

Impact on Psychological Contracts

The role of psychological contract leadership is critical in the formation and maintenance of psychological contracts between employees and organizations. Leaders' actions and behaviours are often seen as expressions of organisational intentions and commitments. Employees' perceptions of organizational promises being met are enhanced by positive leadership behaviors like open communication, fairness, support, and recognition. Transformational, servant, and ethical leaders are able to foster trust and commitment by meeting employee needs and offering opportunities for growth and development. These leadership styles create a strong psychological contract between leader and follower in terms of loyalty and mutual respect. Conversely, if leaders' behaviors are inconsistent or unfair, it can result in the perception of psychological contract violation, which can lead to dissatisfaction, a decrease in trust and an increase in turnover intentions. Poor leadership can negatively affect employee morale and relationships if they fail to meet employee expectations or effectively share organizational change. Thus, the effectiveness of leadership has direct impact on employee perceptions of organizational obligations, with leadership being a crucial element in maintaining positive psychological contracts and fostering long-term organizational commitment.

Impact on values of the organisation

Organizational values are strongly affected by leadership in their development, communication and reinforcement. Leaders set examples for the principles and standards expected within the organisation through their actions. Leaders influence the culture and set the norms of the organization in their decisions, actions and relationships. Transformational leaders instill values like innovation, teamwork and excellence, while ethical leaders drive integrity, fairness and accountability. Servant leaders foster caring, caring for others and caring about employees. Employee buy-in and internalisation of values is higher when leadership is consistent in their actions with their declared values in the organisation. However, when leaders do not behave consistently with the organisation's values, it can lead to confusion, lack of trust and a poorer organisational culture. Leadership also affects how values are shared in the recruitment, training, performance management and reward process. Thus, good leadership is vital to establishing positive organizational values that will help employees act well, committed to the organization, identify with it and contribute to its long-term competitive success.

Psychological contract is fulfilled in the context of leadership.

Leadership is an important process for the actualisation and maintenance of psychological contracts in organisations. Leaders will shape the employees' perceptions of organizational commitments through their actions, as they act as representatives of the organization in everyday interactions with employees. Leaders contribute to psychological contracts through communication, treatment, recognition, support and

opportunities for development. Great leaders make sure that staff expectations are in line with the organisation goals and resources and minimise misalignment and potential contract risk. Leaders through regular feedback and decision making processes develop trust and strengthened employees' confidence in organization's promises. Supportive leadership behaviours also help to improve staff members' experiences of caring for them and their commitment to their wellbeing. An employee's sense of psychological contract is strengthened when leaders consistently fulfill expectations, leading to higher job satisfaction, loyalty and performance. On the other hand, when leadership practices are poor, employees may think of the unfulfilled obligations and it can impact their trust. Thus, leadership is an important medium between the organizational intentions and the employee's perceptions, which is crucial for the successful implementation of psychological contracts.

Higher Employee Engagement

One of the most important results of good leadership and psychological contract is that employees are engaged in high numbers. Workers who are engaged are enthusiastic, committed and dedicated to their work and organizational goals. Employees feel valued and motivated to go above and beyond their job descriptions when they feel supported, recognized and opportunities for growth are present. A positive psychological contract fosters employees' attachment to the company, leading to their greater involvement and willingness to exert effort. Happy workers are more inclined to think outside the box, work collaboratively with others and be proactive in their work. They also demonstrate greater focus, efficiency and commitment in challenging situations. Companies with a highly engaged workforce tend to have a more satisfied customer, better service quality, and a greater competitive advantage.

Increased Organizational Commitment

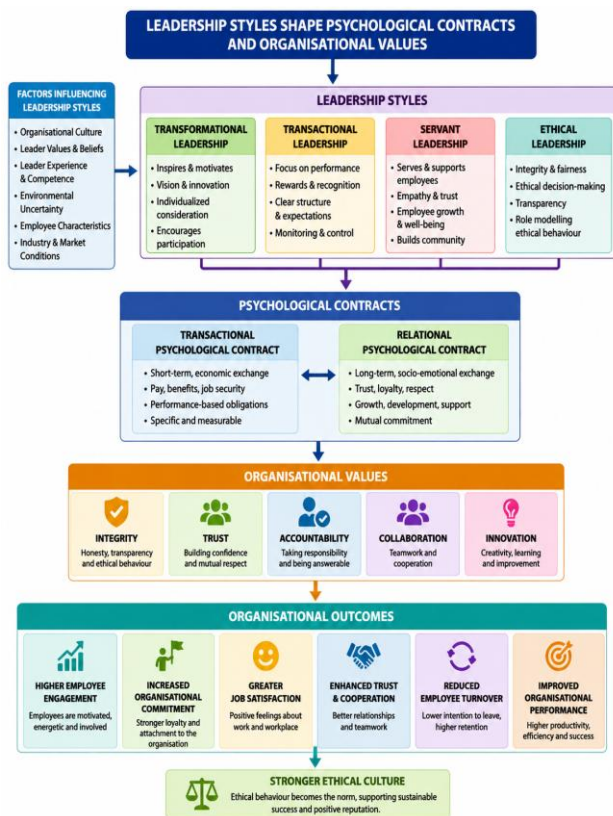
Organizational commitment is a psychological bonding and allegiance that an employee feels towards an organization. High quality leadership and good performance of psychological contracts contribute to higher commitment among employees. A sense of fairness, support, and trust from leaders can help employees feel part of the organization's objectives and stay committed to the organization. Dedicated staff volunteers their time, energy and talent to help the organization succeed. Less likely to look for jobs outside the company, more likely to support organizational changes and initiatives. A transformational and servant leadership style are especially effective in promoting commitment through positive relationships and meeting the personal and career needs of employees. Organizational commitment is beneficial to the organizations by enhancing productivity, reducing absenteeism and increasing the workforce stability. When employees are emotionally connected to the organization, they will generally be advocates of the values and objectives that it stands for.

Greater Job Satisfaction

Job Satisfaction is the positive feelings employees have towards their jobs, workplace environment and

relationships with the organization. Leadership has a big impact on employee satisfaction, from setting the tone for work environment to the way it's communicated, recognized, and developed. Leaders who are fair, respectful and supportive are more likely to lead employees who are happy with their jobs and experiences within the organization. The satisfaction is also increased when psychological contracts are fulfilled, as it helps to confirm employee expectations of rewards, career development, and organizational support. Happy workers are more productive, motivated and dedicated to organizational goals. They also show less stress and are more willing to work cooperatively with others. Participative, empowering and developing leadership styles are beneficial for employee satisfaction.

Figure: 2



The ability to cooperate and trust are fundamental components of good organization. Leaders who are effective at building trust are honest, consistent, fair and transparent in decision making and with employees. If leaders keep their word and speak candidly, then workers build trust in organizational plans and trust in leadership. A strong psychological contract also enhances the level of trust by making sure that the expectations are fulfilled. Trust fosters a sense of partnership, knowledge sharing, and teamwork among team members, leading to better collaboration and increased productivity. A collaborative work environment fosters teamwork, minimizes conflict among individuals and boosts problem solving skills. When employees recognize their leaders and trust them, and feel that decisions are being made for the good of the organization and employees, they will be more likely to support the initiative. Increased trust also facilitates

communication and fosters better relationships within the workplace.

Reduced Employee Turnover

One of the most important advantages of good leadership and a good psychological contract is a low turnover rate. When employees feel valued, supported and treated fairly by their leaders, then they're more likely to stay in the company. Effective leadership builds positive work experiences, and employee's effective psychological contracts are associated with their trust and commitment to the employer. If they are satisfied with career development, recognition, pay and job security at their current organization, they are not likely to look for new employment. Reducing turnovers means that the company will have more skilled and experienced employees, which will help lower the recruitment and training costs of the company. In addition, stable staffing helps maintain team dynamics, boost productivity, and retain organizational knowledge. Leadership styles focused on employee growth, communication, and well-being have been proven to be beneficial in improving employee retention. Lack of leadership and violation of the psychological contract, however, can lead to greater dissatisfaction and turnover intentions. Leadership development and employee-focused management strategies are therefore critical strategies to reduce employee turnover and ensure business continuity.

Improved Organizational Performance

Effective leadership, positive psychological contracts and strong organizational values are directly linked to improved organizational performance. Leadership has impact on employees' motivation, productivity and commitment that make the organization successful. A more positive relationship between employees and their leaders can lead to employees becoming more efficient, and effective at meeting strategic goals. Positive psychological contracts foster employees to do more than what is required to do at the jobs and to participate in behaviours that will benefit in improving the effectiveness of the organisation. Clear organizational values give guidance for decision making and ensure that the actions of employees are in line with the organisation's aims. Better performance is demonstrated through: increased innovation, better service quality, higher productivity and improved financial results. Transformational and ethical leadership are effective styles of leadership to improve performance through employee engagement and commitment. By focusing on leadership development and business by values, organizations can foster a culture where employees can work to their full potential, resulting in sustainable growth and competitive advantage.

Stronger Ethical Culture

When leaders lead with integrity, fairness and accountability in their actions and decisions, a stronger ethical culture develops. Through its leadership, it is essential to set & shape ethics within the organization and affect employee conduct accordingly. Ethical Leaders are role models who demonstrate honesty, transparency and respect in their interactions with others in the workplace. An organization's values, when they are promoted and reinforced by organizational leaders, is likely to be

followed by employees and is likely to encourage responsible decision making. Proper psychological contracts also play a role in establishing an ethical culture by building trust and respect among employees and the organization. An ethical culture helps minimize the risk of misconduct, corrupt behavior, unethical actions, and boosts the reputation and confidence of the organization and its stakeholders. Personnel in ethical climate tend to be more satisfied and more involved with their job, due to the fact that they find the work environment fair and just. Hence, ethical values must be supported by leadership commitment to build a culture that is able to support sustainable organizational success and responsible business.

1. **Trust and Credibility:** The leadership styles have an impact on psychological contracts and organizational values, and trust and credibility are a key element. Transformational leaders establish trust through their consistency, transparency and integrity in decisions and actions. Positive psychological contract is formed when employees believe that the leaders are keeping their promises and are treating them fairly. This trust allows workers to give more than they are asked to do and deepens their bond to organizational objectives. Additionally, trust-based leadership fosters values within the organization like honesty, accountability, and mutual respect. If leaders behave themselves according to these values, their employees will internalize and act on their values in their daily behavior. Conversely, a weak or nonconsensual leadership style can cause cynicism, which can result in psychological contract violations and lower employee engagement. So trust and credibility forms the basis of good relationship between employer and employee, which contributes to the positive culture of the organization and where employee's expectations are harmonized with the organization's values.

2. **Communication and Transparency:** Communication and transparency are important in building psychological contracts and values within the organization. An open communication leadership style facilitates the understanding of organizational goals, expectations, and changes by employees. Transformational and participative leaders provide opportunities for discussion, feedback and the exchange of ideas, which help to diminish uncertainty and increase employee confidence. A transparent communication ensures that employees feel one way about this fairness in organizational processes, thereby enhancing the psychological contract. If employees are given timely and accurate information, they will feel better about the management and more aligned with the organization's objectives. Further, transparency in leadership strengthens the values of the organization like openness, collaboration, and ethical actions. It fosters an environment where staff feel valued and respected, and are actively involved in decision making. On the other hand, lack of communication can cause misunderstandings, dissatisfaction and lower psychological contract. Therefore, communication and transparency are crucial mechanisms in which leadership styles affect employee attitudes and organizational values.

3. **Employee Empowerment and Participation:** Relationship between leadership styles, psychological

contract, and organizational values are significantly affected by employee empowerment and participation. Teachers, who give employees responsibility for decisions and delegated authority, encourage ownership and responsibility. Participative and transformational leadership go hand in hand, and they will make employees feel like they're able to share ideas, solve problems, and help the organization succeed. These behaviors reinforce psychological contracts and fulfil the psychological needs of employees in autonomy, recognition and development. When employees are empowered, they are more likely to show commitment, loyalty and pro-activity. Furthermore, empowerment helps to establish values in the organization including innovation, collaboration, accountability and continuous improvement. Workers' sense of respect and trust leads to an increase in job satisfaction and organizational commitment. Involving employees in the processes of organizations fosters a positive work atmosphere, builds trust and teamwork. Empowerment and participation thus play a crucial role in reinforcing positive organizational values and in the psychological contract of the organization.

4. **Ethical Leadership and Role Modelling:** Psychological contracts and organisations values are influenced by ethical leadership and role modelling. Leaders set an example for staff through their behavior, and model ethical, fair and responsible conduct. Leaders are closely monitored by employees and are frequently mimicked, so leadership is an important way to convey organizational values. Trust, justice and mutual respect are foundation stones of ethical leadership which ensures that the employees feel secure and valued in the organization. If the leaders always act according to the ethical values, employees will build up positive attitudes, commitment, and trust in the employees. Ethical leadership also fosters values within the organization like Integrity, Accountability, Social Responsibility and Professionalism. It sets an example of doing the right thing and gaining rewards. On the other hand, unethical leadership may have negative consequences, such as eroding trust, invoking a psychological contract violation, and reducing organizational values. Hence, ethical leadership is a significant element in ensuring that employee expectations are congruent with the organizational values and support a healthy organizational culture.

5. **Recognition and Support:** The positive influence of leadership styles on psychological contracts and organizational values is mediated through recognition and support. Positive workplace experiences are established when leaders recognise that employees are contributing and offer the required support. Transformational leaders inspire their workers through encouragement, praise, and instruction in difficult times. These efforts help meet the psychological contract of the employees, which is characterized by trust, fairness, and respect, and boost their satisfaction. When employees feel valued, they are more likely to stay with the company, be motivated and committed to the company's goals. Also, recognition promotes organizational values that can include appreciation, inclusiveness and excellence. Supportive leadership fosters a positive team culture and promotes

teamwork, cooperation, and the well-being of employees. Conversely, unrecognized employees might feel discontent, lose motivation, and feel psychological contract violation. Thus, in essence, the recognition and support of employees is an important factor in the development of good relationships with employees and the establishment of values that will contribute to the effectiveness and sustainability of employees in the organization

Objective

To examine the factors through which leadership styles shape psychological contracts among employees and to identify the most influential leadership-related factors affecting employee perceptions and organizational relationships.

Methodology

The study adopted a descriptive research design to analyze the influence of leadership styles on psychological contracts. Primary data were collected from 100 respondents using a structured questionnaire. The respondents were selected through the convenience sampling technique, considering their accessibility and willingness to participate in the study. The collected data were analyzed using descriptive statistics such as mean, standard deviation, and mean rank. Additionally, Kendall's Coefficient of Concordance (W) was employed

to assess the level of agreement among respondents regarding the ranking of leadership factors influencing psychological contracts. The analysis was carried out to identify the most significant factors shaping psychological contracts within the organization.

Analysis, Results and findings

Psychological contracts and organizational values in contemporary organizations are greatly influenced by leadership. Leaders shape the perceptions of employees about their responsibilities and common values through their behaviour, decisions and interactions. Transformational, servant, and ethical leadership styles are more likely to build positive organizational values like trust, integrity, cooperation, and innovation and create a positive relational psychological contract. Conversely, authoritarian leadership can erode trust and restrict value alignment of employees. Good leaders serve as stewards of the organization's culture, meeting expectations of employees and reinforcing the values. Thus, it is important for organizations aiming to achieve sustainable success to focus on leadership practices that help build psychological contracts and develop value-based work environments. This is what helps to promote employee wellbeing, organizational commitment and organisational effectiveness in the long-term.

Table 1: Leadership styles shape psychological contracts

Factors	Mean	Std. Deviation	Mean Rank
Recognition and Support	3.96	1.109	4.68
Employee Empowerment and Participation	2.64	0.926	3.21
Communication and Transparency	3.20	0.834	3.65
Trust and Credibility	3.66	1.062	4.10
Ethical Leadership and Role Modelling	2.03	1.217	3.03

Table 1 reveals that Recognition and Support recorded the highest mean score (Mean = 3.96, SD = 1.109) and the highest mean rank (4.68), indicating that employees perceive recognition and supportive leadership as the most influential factor in strengthening psychological contracts. Trust and Credibility ranked second with a mean of 3.66 and a mean rank of 4.10, suggesting that leaders who demonstrate integrity and reliability significantly contribute to positive employee perceptions and commitment.

Communication and Transparency obtained a moderate mean score (Mean = 3.20, SD = 0.834) and a mean rank of 3.65, highlighting the importance of open and honest communication in fostering trust and clarity within the organization. Employee Empowerment and Participation reported a mean of 2.64 and a mean rank of 3.21, indicating a moderate influence on psychological

contracts through employee involvement in decision-making and autonomy.

Among all factors, Ethical Leadership and Role Modelling recorded the lowest mean score (Mean = 2.03, SD = 1.217) and mean rank (3.03), suggesting that employees perceive relatively lower levels of ethical leadership practices within the organization. The higher standard deviation also indicates greater variation in employee opinions regarding ethical leadership. Overall, the findings suggest that recognition, support, trust, and communication are the primary leadership factors contributing to stronger psychological contracts among employees.

Kendall's Coefficient of Concordance (W) is a non-parametric statistical measure used to determine the degree of agreement among respondents when ranking multiple factors. It assesses whether participants share similar opinions regarding the relative importance of the variables under study. In this research, Kendall's W was applied to evaluate the level of consensus among 100

respondents concerning the factors through which leadership styles shape psychological contracts. The results provide insight into the consistency of employee perceptions regarding leadership-related factors.

Table 2: Kendall's Coefficient of Concordance

N	100
Kendall's W	0.199
Chi-Square	402.522
df	4
Asymp. Sig.	0.000

Table 2 presents the results of Kendall's Coefficient of Concordance analysis. The value of Kendall's W is 0.199, indicating a low to moderate level of agreement among the 100 respondents regarding the ranking of factors influencing psychological contracts. Although the degree of consensus is not very strong, it demonstrates that respondents share some common perceptions about the relative importance of the leadership factors. The calculated Chi-Square value of 402.522 with 4 degrees of freedom is statistically significant. The Asymptotic Significance value ($p = 0.000$) is less than the 0.05 level of significance, indicating that the observed agreement among respondents is not due to chance. Therefore, the null hypothesis of no agreement among respondents is rejected. The findings suggest that employees exhibit a statistically significant level of consensus in ranking the factors associated with leadership styles and psychological contracts. While the strength of agreement is moderate, the significant result confirms that respondents generally perceive certain leadership factors, such as recognition and support, trust and credibility, and communication and transparency, as more influential than others in shaping psychological contracts within the organization.

CONCLUSION

Leadership styles play a crucial role in shaping employees' psychological contracts, which refer to the unwritten expectations and obligations between employees and organizations. Effective leadership fosters trust, communication, recognition, empowerment, and ethical behavior, thereby strengthening employee commitment and organizational values. Understanding the factors through which leadership influences psychological contracts helps organizations create a supportive work environment that enhances employee satisfaction, engagement, and performance. Table 1 presents the descriptive statistics of key factors that demonstrate how leadership styles shape psychological contracts. The findings indicate that leadership styles play a significant role in shaping psychological contracts within organizations. Among the factors examined, Recognition and Support emerged as the most influential factor, followed by Trust and Credibility and Communication and Transparency, highlighting the importance of supportive and trustworthy leadership in fostering positive employee perceptions and commitment. Although

Employee Empowerment and Participation and Ethical Leadership and Role Modelling received relatively lower rankings, they remain important contributors to the development of strong psychological contracts. The Kendall's Coefficient of Concordance analysis revealed a statistically significant level of agreement among respondents ($W = 0.199$, $p < 0.001$), indicating that employees generally share similar views regarding the relative importance of these leadership factors. Despite the moderate level of consensus, the significant result confirms that leadership behaviors substantially influence employees' expectations, attitudes, and organizational relationships. Overall, the study concludes that effective leadership practices characterized by recognition, trust, communication, empowerment, and ethical conduct strengthen psychological contracts, enhance organizational values, and contribute to improved employee engagement, commitment, satisfaction, and organizational performance.

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