



Re-focusing Expatriate Employment Relationships Using Psychological Contracts

Even more important than a legal contract between employer and employee is the psychological contract: an indirect, unwritten and often unspoken agreement between the employer and employee about how each expects to be treated. We all have one, even though few have heard about it or realize how it impacts their day-to-day working life. Once explained, employees readily recognize its nature and importance and can speak candidly about their experiences.

This means that every expatriate working for a multinational company also has a psychological contract with their employer. Thus, while psychological contracts are not legally binding, their breach nonetheless costs organizations millions of dollars each year in diminished employee engagement, low morale, and labor turnover. Especially troubling is that many organizations often do not know that a psychological contract has been breached until an employee walks out the door and joins a competitor. When it comes to expatriates, the power of a high quality psychological contract is undeniable, with recent research showing it is the biggest differentiator for organizations wanting to obtain a satisfactory return on investment (ROI) from expatriates.¹

In this article, we explain what the psychological contract is, its unique characteristics, and why fulfillment of the psychological contract is a critical link to achieving an effective expatriate ROI.

What is a Psychological Contract?

The psychological contract is different

from a formal employment contract between an organization and an individual. A formal contract typically details legally binding obligations such as the employee's duties and performance standards, his or her reporting relationships within the organization's hierarchy, the salary and conditions to be provided by the employer, and the terms of service.

Psychological contracts, on the other hand, are informal and subjective, defined by the individual within the context of their employment, and idiosyncratic, or unique to each employee.² At its core, the psychological contract represents an exchange agreement similar to a 'quid pro quo' arrangement: organizations have expectations regarding performance outcomes and other actions from their employees, and employees have reciprocal expectations from employers regarding such things as support, communication, and equity. Because employment relationships can, and do change, psychological contracts are dynamic and perpetually evolving meaning that they never really stand still.

Characteristics of the Psychological Contract

Psychological contracts are important to organizations because they are critical to gaining the wholehearted effort from expatriates on which mutual success depends. Nothing shakes an expatriate's confidence and commitment so much as the feeling that his or her trust in the organization has, in a breach of the psychological contract, been betrayed or ignored in areas such as compensation,

care for the expatriate's family, and long-term career development.

An organization that fails to meet these expectations runs the risk of violating psychological contract fulfillment, often leading to major losses of employee commitment, and thereby loss of expatriate ROI. What then are the characteristics of psychological contracts which, if better understood, organizations can more effectively manage?

Psychological contracts are implied and unspoken: A formal employment contract is only a starting point. Because psychological contracts are assumed rather than verbalized, a guessing game often goes on between employees and their organizations, sometimes complicated in the case of expatriates by thousands of miles of distance between the parties.

Psychological contracts are unpredictable: Unlike written contracts, psychological contracts have no official start and end date, and are subject to ongoing and constant re-negotiation. This often makes them difficult to manage, because what matters to employees one day may suddenly not matter months, or even days, later. For this reason, there may be little warning of a breach.

Psychological contracts are universal: They exist in every employment relationship, from the janitor to the CEO. Because they exist everywhere, it makes no difference whether an employee is in a local or international role, a part-time or full-time job, or what language is



spoken.

Psychological contracts are particularly important to expatriates: This is because they are geographically separated from the relative stability of headquarters or home country, and therefore accrue higher levels of risk, cultural conflict, uncertainty, and disruption. They are, therefore, likely to place a greater emphasis on perceived but unspoken mutual understandings and indirect support particularly in relation to family issues and career progression.

Psychological contracts are determined by employees: Psychological contracts are primarily controlled not by organizations, but by employees who also decide whether, when and how the terms of their psychological contract have been met. More and more expatriates are therefore “calling the shots” in their employment relationship, and indeed may seek to include individual needs and demands that may be self-serving and not aligned to the goals of the organization.

Psychological contracts are altered by, and in turn, they themselves alter, the power dynamics in employment relationships: The increasing demand for high-quality expatriates, the emergence of new millennial ‘Generation Y’ expatriates, and the increasing frequency of local-plus compensation have all given expatriates more say about their professional lives. While companies may feel secure because expatriates are bound by a written agreement or contract, de facto power rests more with expatriates, whose psychological contract expectations include individual ROI (iROI) concerns.

Fulfillment of the Psychological Contract

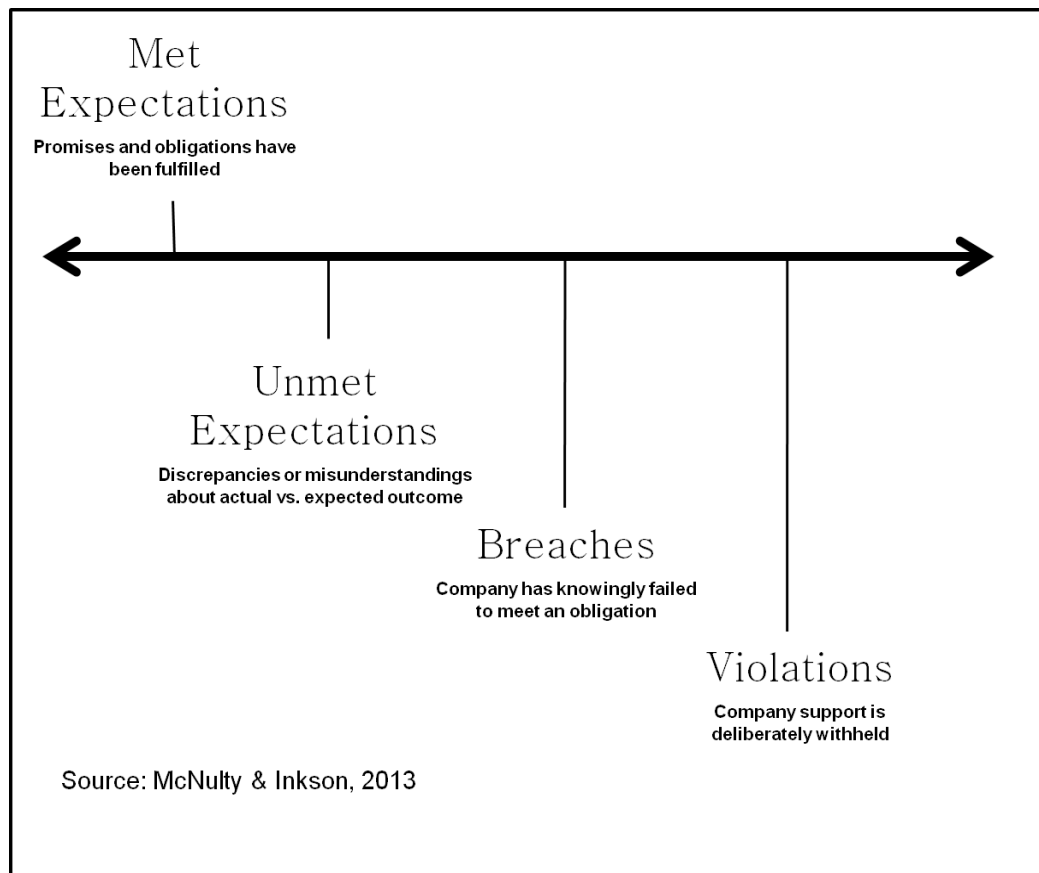
Fulfillment of the psychological contract comes down to an employee’s perception as to whether promises and obligations have been met, and his or her trust that they will continue to be met. Expatriates use their judgment to evaluate psychological contract fulfillment along a sliding scale of *met and unmet expectations, breaches and violations* (see illustration).³

When expatriates perceive that their expectations have been *met*, the psychological contract is considered to be stable and fulfilling, resulting in increased

trust, loyalty and commitment, better performance, ‘going the extra mile’, and perhaps a willingness to undertake another international assignment.

On the other hand, unfulfilled psychological contracts tend to

company support has been deliberately or intentionally withheld (e.g. a promotion), resulting in intense emotional responses from expatriates including things like causing an assignment to fail or resigning and joining a competitor.



invoke negative responses such as disappointment, frustration, resentment, and anger, the intensity of which is dependent upon the meaning and relative importance an expatriate attaches to the obligation or promise that has not been fulfilled.

There are levels of responses to a perceived unfulfilled psychological contract. The least intense response is *unmet expectations*. These are discrepancies or misunderstandings about actual versus expected outcomes.

Next are *breaches*. These are slightly more serious and occur when expatriates perceive that the organization has knowingly failed to meet an obligation, for example, by denying them the support necessary to achieve their professional goals.

Lastly, *contract violation*, obviously is a worst-case category arising when

In order to understand how psychological contracts work in practice, we need to determine the ‘content items’ that matter most in facilitating psychological contract fulfillment.

Relocation Support

Relocation support presents a classic example of one such content item in terms of how it can, at the very beginning of an expatriate’s assignment, establish the psychological contract for years ahead, or derail it immediately.

The expectation that a company will do all it can to welcome expatriates to their new locations and ensure a smooth transition is common to most expatriates’ psychological contract expectations. Yet relocation support is often cited as a significant short-term let down for

many expatriates who are left to fend for themselves in an unknown and unfamiliar new host-city.

In psychological contract terms, poor relocation support creates not only short-term tension but also long-term resentment making even short-term ROI gains highly problematic. This is because poor relocation support frequently means that the expatriate is then required to perform typical ‘setting up’ tasks that could have been handled by a third-party vendor or an administrative assistant. This is a distraction which prevents an expatriate from getting on with the job, and it creates in them a feeling of abandonment by the company.

The provision of effective relocation support is not difficult and does not necessarily require companies to spend more money. Some areas where improvements can be made include:

- Policy flexibility. When a relocation policy is too inflexible and rigid to meet a unique need, relocation benefits can sometimes make no sense to those involved. Swapping one benefit for another, or bending the rules in such a way that does not increase the overall relocation budget is good common sense, not because expatriates ‘win’ a policy exception, but because doing so increases psychological contract ‘goodwill’. In short, petty limitations help no one.
- Get it right in the first two weeks. Despite an earnest—and usually expensive—relocation effort that often extends into months after their arrival, what seems to matter most to expatriates is the relocation support they receive in the first two weeks. This includes help with setting up bank accounts, finding suitable housing (or at least a good real estate agent), navigating public transportation, and knowing where to find suitable medical care. Making expatriates jump through hoops over trivial matters wastes everyone’s time.
- Provide one point of communication, two at most. Nothing irritates expatriates more than having to deal with a dozen or more people to make their relocation happen, particularly as it can also be confusing for a person who is not familiar with their new office environment. Here, outsourced relocation vendors—specialists that provide a “one-stop shop” for international relocations—can be a great help. It becomes their job to

communicate directly with expatriates about policy benefits, claims, arrival assistance, and other day-to-day issues.

Career Management Support

In a recent article, it is suggested that career development is arguably the most important long-term concern of the individual in formulating his or her psychological contract with the company, in the context of an international assignment.⁴ For an increasing number of today’s modern expatriates, companies are not rewarding and supporting them in ways that matter: few seem able to truly deliver what is needed via strong psychological contract fulfillment in relation to career management.

This may then cause new retention problems for companies because expatriates’ external marketability to other employers is a recent form of ‘development currency’ that ties in directly to expatriates’ individual ROI. To be absolutely clear, attrition represents one of the strongest outcomes from psychological contract violation in terms of losing the talent upon which so much ROI is riding. If an international assignment is instrumental in advancing employees’ careers, then improved communication about career planning and greater levels of career management support are required.

Compensation

For more and more expatriates, compensation is a ‘means to an end’—it matters only to a point. Most organizations are, therefore, mistaken in their belief that financial gain is an expatriate’s overriding motivation in accepting an opportunity abroad. As we reported in a recent Strategic Advisor, *Local Plus: Winning the Compensation Battle But Losing the Talent War*⁵, traditional forms of expatriate compensation cannot be used to the same extent as they have in the past to motivate expatriates to perform and to remain with an organization. In accepting this new reality, it is not then the type of compensation that matters most to expatriates, but the process by which compensating them takes place

and how they are subsequently treated. When the financial ties that bind them to their organizations are lessened by local-plus, or cut altogether as is the case with localization, then using only money to retain them seems somewhat futile. This is particularly true when competitor organizations can match or exceed an expatriate’s existing remuneration package as a means of poaching them. The point is that it’s not just about the money. In fact, Brookfield GRS found in their most recent 2014 Global Mobility Trends Survey that the number one reason for failed assignments is the expatriate leaving to join a competitor!

Family Support

Recent reports show that the majority of expatriates are married, and many relocate with their children.⁶ So when family problems arise during an international assignment, the consequences can be devastating. In psychological contract terms, family support during expatriation is immensely important because relocations affect everyone, not just the person employed by the company. When it is lacking, problems at home can be distracting to the expatriate employee and cause resentment among partners who often blame the company and/or their working spouse.⁷ The follow-on effects can have an impact on physical health, psychological state of being, future relocation decisions, and even a marriage. In short, although psychological contracts exist between employers and employees, expatriation is a unique situation; it is not unreasonable to find that the spouses or partners of expatriates also have psychological expectations about how they and their families will be treated by a company, regardless of their non-employee status.⁸

Concluding Thoughts

At its core, good psychological contracts require a high degree of communication between expatriates and those who manage them, established via both informal conversations and by utilizing more formal performance evaluations (e.g. 360 degree feedback) to develop mutually-held expectations. Also important is building a culture of trust, particularly



across international boundaries. Being responsive to expatriates' concerns, questions, claims, and other queries, regardless of the distance between them and the headquarters or their manager, is paramount. Importantly, while in this article we have identified four of the most common 'currency' items in the psychological contract, the reality is there can be hundreds more specific to individual circumstances, family size, the host-location, or economic instability, among others.

What remains critical is for companies to realize that the power of the psychological contract is determined not by how much money is spent or thrown at a problem, but by the intent behind the actions or behavior. It costs companies nothing to treat their people well, by communicating with them openly and thereby fostering harmonious and committed relationships through mutual respect and understanding.

Endnotes

¹McNulty, Y., De Cieri, H., & Hutchings, K. 2013. Expatriate return on investment in Asia Pacific: An empirical study of individual ROI versus corporate ROI. *Journal of World Business*, 48(2):209-221.

²Rousseau, D. 2005. I-deals: Idiosyncratic deals employees bargain for themselves. Armonk, NY: ME Sharpe.

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⁴Yan, A., Zhu, G., & Hall, D. 2002. International assignments for career building: A model of agency relationships and psychological contracts. *Academy of Management Review*, 27(3): 373-391.

⁵McNulty, Y. & Aldred, G. 2013, September. 'Local plus: Winning the compensation battle but losing the talent war'. *Strategic Advisor*, Brookfield GRS, p1-5.

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⁷Lazarova, M., Westman, M., & Shaffer, M. 2010. Elucidating the positive side of the work-family interface on international assignments: A model of expatriate work and family performance. *Academy of Management Review*, 35(1): 93-117.

⁸McNulty, Y. 2012. 'Being dumped in to sink or swim': An empirical study of organizational support for the trailing spouse. *Human Resource Development International*, 15(4): 417-434.



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