

# **How to manage staff with individual contracts? Some experiences with psychological contracts in New Zealand.**

**Dr Rupert Tipples, AGLS Division, Lincoln University.**

.

**John Verry, Employee Relations Manager, University of Canterbury.**

**3<sup>rd</sup>. International Conference on Contemporary Business, Leura, Blue Mountains, NSW.**

# The Problem – An Introduction

- ‘Academics need to develop more theories that managers can use.’ (Jay Lorsch, *HBR*, 1979)
- Lorsch advocated situational tools, such as the psychological contract, for the more effective management of staff.
- 27 years later, Lorsch’s advocacy has not yielded its full benefit.
- Useful guidance is offered by earlier research on the subject, as we seek to understand employment relationships.
- Relative popularity of the construct among UK managers (Guest and Conway, 2002; CIPD, 2006).

# Psychological Contract Origins

- **Construct appears around 1960**
- **Separately from Argyris, Levinson and Schein (Roehling, 1997)**
- **Sources: social contract, social exchange theories, reciprocity.**
- **“The psychological contract is a series of mutual expectations of which the parties to the relationship may not themselves be even dimly aware but which nonetheless govern their relationship to each other.”**

**[Levinson *et al.*, 1963, 21].**

# Psychological Contract mentions in Google Scholar Articles

- **Subject areas searched: Business, Administration, Finance and Economics, and Social Sciences, Arts and Humanities:**
- **Between 1960-1988**                      **81 mentions**
- **1989 to 1995**                              **161 mentions**
- **1996-2000**                                 **749 mentions**
- **2001-2006 (July)**                        **1,690 mentions**

## **Second phase research 1989 – 1995**

### **a. U.S.A.**

- **Rousseau *et al.* broke with previous conceptualizations (e.g. Rousseau, 1989, 1990 and 1995).**
- **Differentiated between mutual expectations and psychological contracts.**
- **Focused on the beliefs of the individual employees in the promissory aspects of their psychological contracts.**

## **a. USA cont.**

- **Robinson and Rousseau (1994) report much stronger relationships between psychological contract violation and respectively:**
  - **Job satisfaction or dissatisfaction**
  - **Intentions to stay or leave**
  - **Job turnover****than unmet expectations (Wanous *et al.*, 1992).**
- **Suggests that such psychological contracts are a much stronger form of the concept earlier described by Levinson (1963) and others.**

## **Second phase research 1989 – 1995**

### **b. U.K.**

- **Herriot's team differed. They viewed psychological contracts as '...the invisible glue which attached individuals to employing organisations over time.'**
- **Focused on mutual obligations, not necessarily made explicit and continuously changing.**

## **b. UK cont.**

- **Herriot helped popularise psychological contracts and their role in understanding:**
    - **Recruitment**
    - **Current managerial employment relationships**
    - **Careers**
- (Herriot 1989a and 1992; and Herriot and Pemberton 1995 etc).**

## **Difficulty of empirical research**

- **The psychological contract is dynamic**
- **‘At any one point in time we can take a snapshot of the contract, but that's merely a fix on a moving target.’  
(Herriot, 1992, 7)**
- **Individuals also may have a number of psychological contracts at the same time (e.g. social roles occupied?).**

# Psychological contract research at Lincoln

- **1990s Lincoln University was undergoing the Employment Contracts Act 1991 IR regime and ‘New Public Management’.**
- **Policies of individualization and restructuring.**
- **Academic frustrations, low morale etc.**
- **Management unilaterally reduced the ‘career’ grade to which most academics could rise.**
- **Had their psychological contracts been violated?**
- **Initial investigations borrowed heavily from Rousseau’s research (Tipples and Krivokapic-Skoko, 1996).**

## PC research at Lincoln cont.

- **1997 research borrowed from Herriot *et al.*'s 'critical incident' approach (Tipple and Jones, 1998).**
- **'Would the answers provided by the two different methods be the same?'**
- **Linkage of the results of Rousseau *et al.*'s American research team and Herriot *et al.*'s UK based team.**
- **Application to the same base population, albeit at marginally different time periods.**

# Lincoln Research Results

- **There was a degree of consistency between the results.**
- **Rousseau's questions suggested academic employees believed LU owed them job satisfaction.**
- **The 'critical incident' approach suggested they were concerned about their work environment (a component of the JDI), and being treated in a way below what was expected.**

## LU results cont.

- *Loyalty* and *Work outside ordinary Office hours* were the most important Rousseau factors academics believed they owed to LU.
- *Hours* and *Loyalty* were the second and third major components of individual's psychological contracts cited by employees and first and third of those cited by employers via 'critical incidents'.
- The weakness of Rousseau *et al.*'s research appears to be its failure to identify the quality and quantity of employees' work as one of the major components of individuals' psychological contracts.
- Rousseau *et al.* did not consult real employees and have appeared to leave out the obvious.

## Research Conclusions

- **The critical incident approach provided a way to assess the content of psychological contracts *de novo*.**
- **Utilisation of Rousseau's questions was not appropriate without substantial pre-testing/modification for New Zealand academics.**
- **For employee obligations the content of psychological contracts concerns the traditional issues of quantity and quality of work done, time applied to that work and loyalty to the employer.**
- **For employer obligations providing a suitable work environment, supportive management, appropriate recognition for special achievements, adequate consultation, fairness and job security were central.**

# Implications

- **Differences between the Employers/Employees in terms of their perceptions of the mutual obligations, promises, and expectations of psychological contracts was a continued cause for concern.**
- **Lack of match causing unstable psychological contracts and employment relationships. is undesirable for both parties.**
- **Contract breaches and violations have serious implications for employee trust of employers and their agents.**

## **Limitations of the 'critical incident' approach (Conway and Briner, 2005)**

- **The technique told more about violations and exceeded expectations than about the content of the psychological contract.**
- **Results consistent with some reported for UK employees (Guest and Conway, 1998).**
- **Weakness of not assessing the exchange aspects of the deal.**
- **Dependent on the accurate memory of the interview subjects.**
- **More mundane aspects of work might be missed if there were no 'incidents'.**
- **Not a problem with dairy farming or academia at Lincoln!**

# Trust, breaches and violations

- **Prior trust has an impact on the recognition and interpretation of breaches of contract.**
- **If prior trust moderates the impact of a breach:**
  - **Actively establishing and maintaining trusting relationships with employees inoculates the employees from the effects of potential contractual transgressions.**
  - **Where employers can earn the trust of employees early on, employees will be less likely to perceive a contract breach in the first place and more likely to retain their trust despite possible changes or breaches (perceived or actual) in the employment agreement (Robinson, 1996).**

## **Trust, breaches and violations cont.**

- **A vicious circle of mistrust, interpreting a breach of trust as a violation rather than a breach, and further loss of trust, may incapacitate any organisation.**
- **A trust building strategy is more facilitating (Herriot, Hirsh and Reilly, 2000).**
- **Trust is essential for the sharing of knowledge in organisations/universities today (Sharkie, 2005).**

## Recent Research

- **Theoretical assumptions have major deficiencies (Conway and Briner, 2005).**
- **Continued sustainability of the construct as presently constituted is questionable. (Cullinane and Dundon, 2006).**
- **Back to ‘Mutual expectations’, with more of a social exchange emphasis?**
- **Before the restructuring and downsizing of the 1990s employee expectations were different from the current employment market.**

## **Cont.**

- **Labour shortages, caused by the ageing of the existing labour force, and the forecast increases in student populations, will be factors in the future academic labour market (Deloitte, 2005).**
- **Psychological contract research has yet to focus on Generation Y and Millennials:**
  - **technologically skilled, mobile and with a different perception of work from previous generations.**
- **Arguments for employee flexibility have tended to have strongly managerialist overtones - firmly unitary rather than pluralist position (Cullinane and Dunon, 2006).**

# Trust

- **Trust central to the psychological contract in the new precarious employment environment (Sharkie, 2005)**
- **Pate (2006) offers a more holistic view of the causes of loss of trust.**

# Future Research

- **Future research needs to be set in frameworks informed by Guest/Pate among others, using a range of research methodologies to achieve triangulation of the results (Denzin, 1989).**
- **Further research is needed on the psychological contracts of the changing generations.**

# Guest's framework for applying the psychological contract to the employment relationship (2004)

© International Association for Applied Psychology, 2004.

550  
GUEST

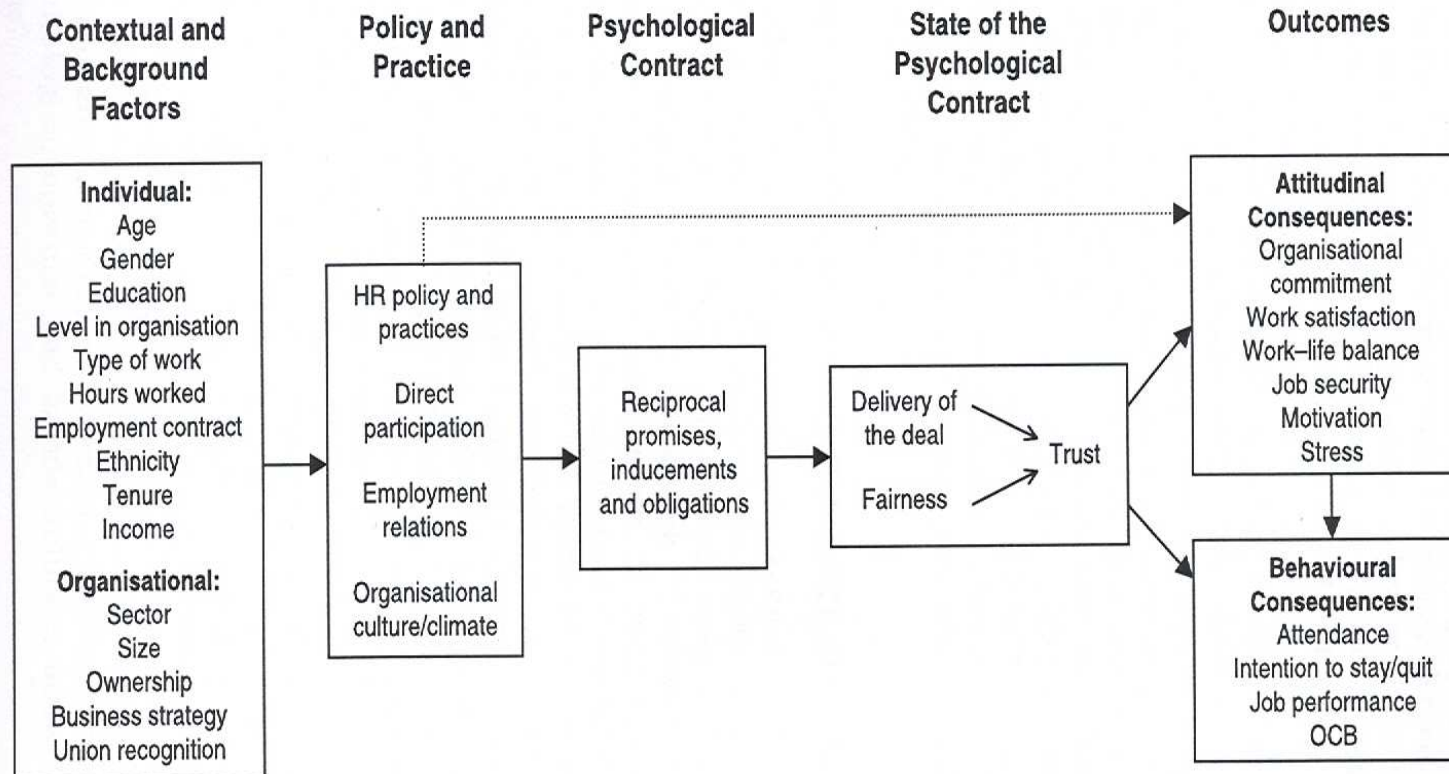
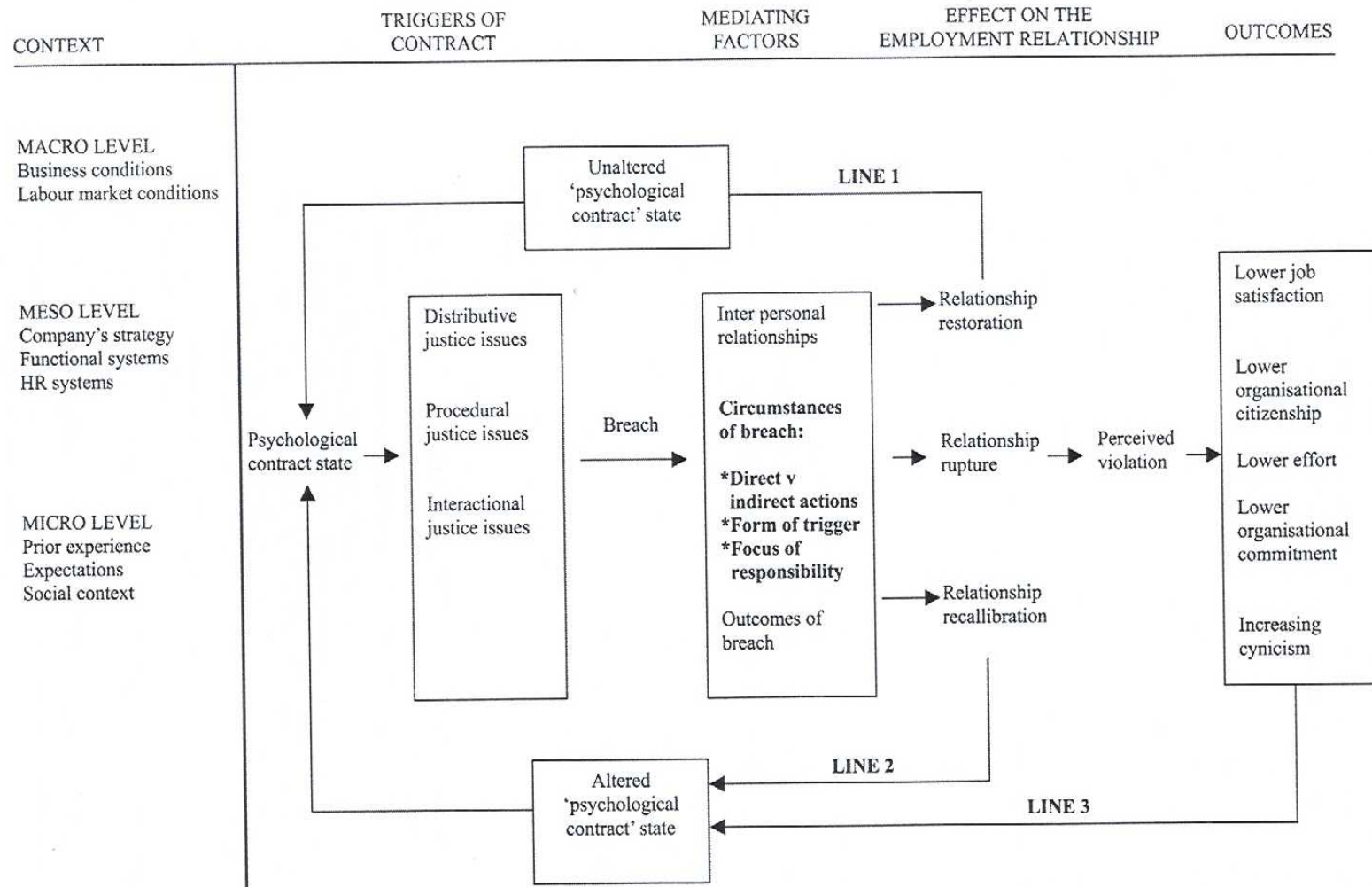


FIGURE 1 A framework for applying the psychological contract to the employment relationship.

# Pate's amended model of psychological contract development (2006)



# **The 'Contracting' Approach (Tipples, 1995)**

- **Integrating research on psychological contracts and met expectations has been mutually reinforcing.**
- **Suggests some practical ways of establishing and maintaining sound and on-going mutually matching employment relationships=> 'Contracting' strategy**
- **This 'Contracting' strategy has been used to investigate employment relations at Lincoln University, and to assist in resolving dairy farming employment problems in the New Zealand (Tipples, Hoogeveen and Gould, 2000).**

•Table 1: Actions to achieve effective psychological contracts and thus employment relationships (Tipples 1995)

•Process stage	•Employer focus	•Employee focus	•Research basis
•1. Pre-creation	<ul style="list-style-type: none"> <li>•Establishing a caring image to encourage positive beliefs about the organisation as employer.</li> <li>•At an individual level plenty of accurate information about the job should be provided; questions answered; site visits permitted; contact with current employees encouraged etc.</li> </ul>	<ul style="list-style-type: none"> <li>•Self discovery: What the individual wants; what they can offer the organisation; and what their labour market value is.</li> </ul>	<ul style="list-style-type: none"> <li>•Robinson, Kraatz and Rousseau, 1994; Saks, 1994.</li> <li>•Scholarios, Lockyer and Johnson, 2003</li> </ul>
•2. Creation	<ul style="list-style-type: none"> <li>•Carrying out employer policy in practice, not just the form of it e.g. E.E.O. principles. Being careful to avoid confusion in contract terms and how they are perceived by maintaining close co-ordination between selectors and supervisors.</li> <li>•At an individual level using RJP, RR and ROPES; permitting genuine negotiation as part of the two way process of contract formation. Avoiding contract confusion through ensuring actual managers are involved in contracting, and minimising the use of external agencies.</li> </ul>	<ul style="list-style-type: none"> <li>•Actively inform the organisation what they want and can offer; and discover what the organisation wants and can offer. Negotiate with organisational representatives.</li> </ul>	<ul style="list-style-type: none"> <li>•Herriot, 1988, 1989a and b; Rousseau and Parks, 1992; and Wanous, 1992.</li> <li>•De vos, Buyens and Schalk, 2003; Shore and Barksdale, 1998</li> </ul>
•3. Maintenance	<ul style="list-style-type: none"> <li>•Maintaining open communication with employees about future changes, organizational environment etc. Being careful to avoid managerial actions which can lead to adverse changes in employees perceptions of the organization as a trustworthy and "good" employer; and any form of contract violation. Providing regular feedback as part of on-going performance appraisals, leading to regular renegotiation of employment contracts.</li> </ul>	<ul style="list-style-type: none"> <li>•Monitor changes in the organisations and their own needs and wants. Then decide whether these merit renegotiation of the contracts, and if so, renegotiate.</li> </ul>	<ul style="list-style-type: none"> <li>•Herriot 1992a; Robinson, Kraatz and Rousseau, 1994; Guzzo <i>et al.</i>, 1994.</li> <li>•Coyle-Shapiro and Conway, 2005; Den Hartog, Boselie and Paauwe, 2004; Johnson and O'Leary-Kelly, 2003; Martin, Pate and McGoldrick, 1999</li> </ul>
•4. Conclusion of job	<ul style="list-style-type: none"> <li>•Being seen to be fair and just in terminations, both in terms of following "due process" and giving just compensation, but also in terms of giving early and full information, and support. The longer the service the greater the needs in these areas.</li> <li>•Unfair procedures and compensation send deleterious messages to survivors of terminations, especially downsizing, which may increase survivors' turnover.</li> </ul>	<ul style="list-style-type: none"> <li>•Renegotiate satisfactory new contracts, or exit for other employment or retirement</li> </ul>	<ul style="list-style-type: none"> <li>•Rousseau and Anton, 1988 and 1991; Rousseau, 1989; Rousseau and Parks, 1992.</li> </ul>

# Staffing problems in Canterbury dairy farming

- **Labour shortage problems experienced nationally since 2000.**
- **Canterbury dairy farming had acute difficulties in recruiting/retaining staff.**
- **No collective employment relations in dairy farming**
- **The same ‘critical incident’ technique was applied to dairy farm employers/managers and employees.**
- **Results informed industry strategy of matching expectations and perceived obligations for improving employment relationships.**

# Canterbury Dairy Farming PCs

- **Most frequent incidents were in the Work Environment group**
- **More than half related to issues of time e.g. very long hours, inappropriate rosters, and holidays.**
- **Most salient highlighted with employers as topics to concentrate on when recruiting staff.**
- **Employees' good treatment of the employers' property and animals was the most salient employee obligation (Tipples, Hoogeveen and Gould, 2000).**

## **Future research**

- **Reducing the tyranny of long hours through technological changes such as ‘Once-a-Day’ milking.**
- **Better pre-appointment preparations**
- **Targeting specific employment stressors**
- **Focus on maintaining ‘best’ features of work environment.**