Effective Leadership: Managing Psychological Contracts

Strategic Human Resource Seminar

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Red Alert: Challenges to a Competitive Advantage

- Traditional employment relationship have changed completely for workers.
- The widespread layoffs, restructurings, and reorganizations have left many feeling:
  - disillusioned and cynical
  - less job security
  - decreased organizational loyalty
  - less faith in their employers' promises and commitments
Red Alert: Challenges to a Competitive Advantage

- Increasing demands for performance, flexibility, and innovation.

- Greater cultural diversity in the workplace.
Organizational Challenge: Employee Engagement

According to The Conference Board:

- 40% of employees feel disconnected from their companies.
- Two out of three do not identify or feel motivated to support their employer’s business objective or mission.

How can we fix this???
Psychological Contracts

- Leadership has always been and will always be the key differentiator between successful and unsuccessful organizations.
- Organizations that will thrive will be those who successfully groom leaders at all levels independent of position and title.
- We are in an era where personal, visionary and inspiring leadership is so needed.
Leadership must be aware that psychological contracts have a tangible impact on the effectiveness of the organization.

To maintain a competitive advantage it is imperative that organizations properly manage the psychological contracts of their workers.

They must be addressed and managed!
Psychological Contracts

• What Is a Psychological Contract?
  • An individual's beliefs regarding the terms and conditions of an exchange agreement between themselves and their organizations.

  • Of critical importance is the belief that a ‘promise’ (mostly implicit) has been made and that a ‘consideration' has been offered in exchange for it.
Psychological Contracts

Be aware of the different perspectives:

• New
  • Victims of lay-offs
  • Ethical Failures

• Long-term

• Culturally diverse
Psychological Contracts

- Have you ever had a job experience that did not work out as you thought it would?
- Were there any expectations of yours that were not met?
- Were there any expectations on the part of your boss that were not met?
Psychological Contracts

- When individuals join an organization, they form an unwritten and many times implicit psychological contract with the organization.

- This contract consists of the mutual expectations employees and employers have of each other.
Psychological Contracts

- Such contracts help predict the type of outputs employers will get from employees as well as the rewards employees will receive for their efforts from the organization.

- The psychological contract is based on people’s perception that they have been promised a future return for their contributions, thus creating an obligation for the other party to reciprocate.
Psychological Contracts

- If a new employee is given the impression that hard work will be rewarded with a promotion and raise.

- An organization agrees to pay the cost of an employee’s MBA program.
Psychological Contracts

- The expectations may never be formally stated, but they do exist and they have a tangible impact on the relationship between employee and employer.

- If the expectations of either side are not fulfilled or when the contract is violated, intense emotional reactions such as outrage, shock, resentment, and anger may result.
Psychological Contracts

- The disillusionment over broken psychological contracts affects employee job satisfaction, productivity, and desire to continue with the organization.

- Violation of the psychological contract also reduces employee commitment.
Psychological Contracts

- Certainly both prospective employees and employers would be better off if their expectations were made explicit from the beginning.
- Often individuals are not aware of their expectations until they have been disappointed.
- That is why mechanisms that allow for continued discussions and renegotiations are so crucial throughout the term of employment.
Psychological Contracts

• Effective leaders understand that psychological contracts are important because it links the individual to the organization.

• They ensure that the mutual expectations that comprise the contract are both understood and fulfilled so the employee-employer relationship is carefully maintained.
Model for Managing Psychological Contracts

Sharing Information and Negotiation

Role Clarity and Commitment

Stability

Pinch Choice Point

Disruption of Shared Expectations

• Also called the Pinch Model (Sherwood and Glidewell, 1972).

Ambiguity, uncertainty

Resentment, anxiety

Resentful termination

Renegotiation under duress

Planned termination

Planned renegotiation

Return to Status Quo

Crunch Choice Point
The first stage is characterized by a sharing of information and a negotiating of expectations.

Sometimes prospective employees don’t feel that the job is congruent with them, then they may deselect themselves. This is called Planned Termination.
• Assuming that both parties accept the other’s expectations they enter a stage of role clarity and joint commitment.
• Both parties understand and accept the role the other party expects and are motivated to meet the expectations.
• Both parties expect to move into a period of stability and productivity, which allows energies to be focused on work.
Even with the best intentions and full sharing of initial expectations, changes are likely to occur over time. Pinches can be an **early warning** signals to manage the psychological contract.
Pinches have a habit of growing into larger problems if they are not handled properly. They can escalate into a disruption.
The situation may reach a crisis point, or crunch. It is the straw that breaks the camel’s back. Crunces force people to choose among three alternative actions: (a) return to status quo, (b) renegotiate under duress, or (c) resentful termination.
A common outcome is an effort to return to the way things used to be. The parties apologize for the misunderstanding, smooth over the conflict, and attempt to renew their commitment to one another under terms of the old contract.
Another possibility is that the two parties renegotiate under duress by again sharing information and negotiating their expectations.
The final possibility is that little or no discussion occurs and the result is some form of resentful termination. The termination may be either psychological (“I’ll be darned if I’m going to do any more than I’m required to on this job”) or physical (absenteeism, tardiness, quitting, or firing).
Psychological Contracts

Formed in four main ways:

- persuasive communications from others
- observations of their coworkers and supervisors behavior and treatment by the organization
- structural signals
  - formal compensation systems and benefits
  - performance reviews
  - organizational literature - handbooks and missions statements
- personal beliefs
Psychological Contracts

Benefits of Happy Workers:

• The psychological states of employees are important factors in determining their behavior and responses at work.

• The management of these states can improve organizational effectiveness:
  • Improved Customer Service
  • Lower Absenteeism
  • Increased Organizational Commitment & Trust
  • Improved productivity
  • Lower Turnover
Psychological Contracts

• **An organization that alienates workers** through its practices and develops a reputation as a “company that doesn’t care” will be less effective and less efficient.

• On the other hand, employees who are well treated are:
  • committed to the organization (Meyer & Allen, 1997; Mowday et al., 1982)
  • exceed their explicitly required responsibilities
  • respond flexibly to organizational problems and opportunities (George & Brief, 1992).
Psychological Contracts

- **Social Exchange Theories** - maintain that individuals enter into relationships with others to maximize their benefits.

- **Organizational Citizenship Behavior (OCB)** - behavior that (a) goes beyond the basic requirements of the job, (b) is to a large extent discretionary, and (c) is of benefit to the organization.

- **Perceived Organizational Support (POS)** - employees’ perception concerning the extent to which the organization values their contribution and cares about their well being (Lambert, S.J., 2006, p. 503-525).
Psychological Contracts

POS and Organizational Leaders

- Actions taken by agents of the organization are often viewed as indications of the organization’s intent, rather than being attributed solely to agents’ personal motives.
- This personification by the employees would view treatment they received as an indication of the extent to which the organization values their contributions and cares about their well-being.
Psychological Contracts

POS is influenced by:

- Organizational Rewards and Working conditions
  - Developmental Experiences
  - Autonomy
  - Visibility and Recognition
- Support Received From Supervisors
- Procedural Justice
  - Fairness of formal polices and procedures for distributing resources
  - A related concept, perceived attempts to influence others in ways that promote self-interest
Psychological Contracts

Perceptions have Changed

- Highly subjective perceptions of employer–employee obligations do change over time.
- Certain “triggers” can lead to breaches in the psychological contract.
  - Poor ethics
  - Downsizing
  - Poor economy
  - Cultural differences
Psychological Contracts

Hofstede's Cultural Dimensions Theory

- Individualism-collectivism
- Uncertainty avoidance
- Power distance (strength of social hierarchy)
- Masculinity-femininity (task orientation versus person-orientation)
- Long-term orientation
- Indulgence versus self-restraint (free expression of speech, seeking happiness, controlling one’s life, pleasure, or leisure)
Psychological Contracts

Hofstede's Cultural Dimensions Theory

To avoid misunderstandings and disillusionment, it is crucial to identify and share mutual expectations in an ongoing process.

- Japanese concept of lifetime employment
- European expectations of worker councils
- Latin Americans expectation that bosses will attend family events
Psychological Contracts

Previous Laid-Off Workers and Victims of Ethical Failures

- The foundation for their psychological contracts will differ.
- Leaders must understand that downsizing often destroys long-standing psychological contracts.
- May lack trust in others and will be less likely to fully commit and “give themselves” to their new companies (Singh, 1998).
Psychological Contracts

The Role of Strategic Human Resource Management

- Firms must carefully evaluate their socialization processes.
- Responsibilities and expectations of the new employment relationship need to be carefully defined.
- Employer must display behaviors that are ethical and trustful.
Psychological Contracts

The Role of Strategic Human Resource Management

• New psychological contracts require that firms ensure employability rather than employment in exchange for dedicated work effort.

• Clear and honest discussion of mutual obligations:
  • Expectations
  • Corporate culture
  • Career development

• Mechanisms for continuous dialogue.
Psychological Contracts

The Role of Strategic Human Resource Management

- Articulate the corporate vision, and maintain behavior and actions consistent with that vision.
- Management credibility is a necessary condition for strong new psychological contracts.
- The organization’s culture and management strategies must clearly and strongly signal consistency and support for employees.
Psychological Contracts

Seven Values of High Performing Organization:

1. Commitment to employee development
2. Firm belief in fair treatment or equity
3. Celebration of diversity
4. Spirit of partnership
5. High priority for health and well-being
6. Appreciation for change and flexibility
7. Passion for family support, community and environment

(Osland, Kolb & Rubin, 2001).
Questions???