Flexibility and the Psychological Contract

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Please note that this is a draft chapter and may be subject to alteration

OVERVIEW

This chapter aims to explore the connections between organisational performance and two topics in the current human resource management spotlight: the policies of flexibility by which organisations respond to the need for continuous improvement, and the slippery concept of multi-faceted psychological contracts which might help us to make sense of workers’ commitment and associated attitudes towards the employer.

There are connections between these topics. The level of commitment displayed by workers can be related to their psychological contract, and the state of the contract in turn influences workers’ attitudes towards providing flexibility. Employers’ desires for these concepts to be ‘got’, or controlled, are linked with the creation of HR policies designed to improve organisational performance. There is much debate in the HR field surrounding the approaches and activities designed to secure improvements in outcomes and performance, including recommendations by the Chartered Institute of Personnel and Development (CIPD), the UK professional body. It has been observed (Marchington et al 2005) that there is a tendency for these concepts to become conflated with their anticipated results, so that the descriptions become prescriptions, accepted as conventional wisdom.

We also find tensions within this field. The desire for organisations to integrate HR policies with business objectives may sit uneasily with the move towards Atkinson’s (1984) flexible firm, involving decentralised responsibilities and externalised workers. The client organisation in an outsourcing arrangement may find it difficult to manage, or influence, the policies of the supplier of labour. Gilmore (2009) records
that flexible approaches to workforce deployment have often been coupled with an increase in part-time working, fixed-term contracts and outsourcing, making it potentially more difficult to secure organisational commitment. It has been noted that in much of the HR management literature, the typical focus is on the remaining core activities and not on how non-core activities are provided (Marchington et al 2005).

The concepts set out and discussed in detail in this chapter are central to the core themes of our book, based around effective leadership and management of people. As such, material presented in this chapter is linked with themes and topics introduced elsewhere in the text. To take one example, the broad term ‘flexibility’ encompasses organisational and individual elements. In Chapter 7 we saw how people’s experience of work was affected by the organisational structure in which they operate and, of course, by the nature of work they do. In an important sense, therefore, organisational and job design lay out the context within which flexibility can be achieved. At the same time, the individual aspect of flexibility must be understood with reference to the subject of motivation – which we address fully in Chapter 11.

Meanwhile, the promotion of all aspects of high-performance working, including flexibility, was addressed in Chapters 2 and 3. What can be said is that flexibility operates on both an organisational and individual level and that organisations and individuals (including managers and leaders) will have a keen interest in the topic.

We have, finally, an interesting issue regarding terminology and language throughout this chapter. How we choose to refer to the people – as ‘employees’, ‘workers’, or ‘individuals’ – is context-bound, and arguably influences (or is influenced by) our thinking. Much of the current literature focuses on employees inside the organisation. Yet, as we will see, so-called networked organisations rely also upon people outside: agency and outsourced workers, and the pseudo-employed.

**LEARNING OUTCOMES**

After reading this chapter, you should be able to:

- define flexibility and understand the different meanings attached to this concept
- evaluate the importance of the psychological contract on employees’ behaviour
- understand how flexibility and the psychological contract are inter-related
- explain how psychological contracts and flexibility can link with improved organisational performance.
INTRODUCTION

It is commonly stated that the management of people in organisations has recently been carried out against a backdrop of a rapidly changing and turbulent environment. In many advanced economies there has been a move away from mass production of standardised products or even routine white-collar administrative work, many such jobs moving to countries such as China and India. Concurrently, it has been suggested that people in organisations increasingly aspire to work more flexibly and wish to work in more autonomous and creative roles. A search for work–life balance by many employees results in a need for support from employing organisations in order to prevent burnout and to maximise their work performance (French et al 2008). Accelerating globalisation and technological advance has meant that the environment of organisations – both in the private and public sectors – has changed rapidly, resulting in a need for greater flexibility from organisations, their leaders and other workers (Thomas 2009, Thompson and McHugh 2009).

In this chapter we examine a range of terms which have emerged as both diagnoses of current work practices and solutions to problems of managing people in the current competitive environment. Words and phrases such as ‘flexibility’, ‘work–life balance’ and ‘work intensification’ will be defined and analysed, and their benefits and disadvantages highlighted. The debate on flexible responses to trends such as globalisation, technological advance and the ‘marketisation’ of public sector provision now has an established body of knowledge from Atkinson’s (1984) notion of the flexible firm through to the CIPD (2010) report on sustainable organisation performance. The area under consideration in this chapter continues to be academically relevant, topical and of personal interest to many of us.

KPMG AVOIDS REDUNDANCIES THROUGH FLEXIBLE WORKING

Writer and researcher Charlotte Wolff records how international professional services firm KPMG was particularly concerned to avoid employee redundancies following the economic downturn of 2008. David Conder, Head of People at KPMG, noted that ‘When we made redundancies alongside other, similar, firms in 2002–3, it constrained growth when the upturn came and it was also a very painful process for the organisation to go through.’ KPMG’s strategy now is to do the right thing for its clients, its people and the business. This means retaining talent, intellectual capital and the motivational level of its teams, thus ensuring continuity and top-quality service. KPMG’s strategy now includes a ‘flexible futures’ programme using reduced hours and sabbaticals to manage the workforce flexibly during times when business is quiet.

Source: XpertHR (2009)
Flexibility has been frequently identified as a key human resource policy goal, along with strategic intention, quality, and employee commitment, in order to ensure an adaptable organisation structure (Guest 2004). These HR goals are in turn held (Iles et al 1996, p18) to generate:

- a range of positive organisational outcomes, such as high job performance, high-quality problem-solving, successful change, lower turnover, absenteeism and grievance levels, and high cost-effectiveness.

On the one hand employers, encouraged by governments and non-governmental bodies, such as the International Monetary Fund and the World Bank, press the case for workforce flexibility in the hunt for efficiency, and on the other hand it is claimed that individual employees look for flexibility in working hours as they attempt to juggle the demands of home and work lives. It seems that the two agendas might meet in a unitary, though stressful, work–life balance (CIPD 2008b, Taylor 2002, Pollitt 2003) where employers’ flexibility requirements can coincide well with the wants and needs of a great many employees. An outcome, it is claimed, is that ‘flexible working has a positive impact on employee performance and helps to reduce stress [and] that flexible workers [are] found to have higher levels of commitment and job satisfaction than other employees’ (CIPD 2008).

Four main types of flexibility can be identified (after Blyton and Morris 1992):

- task or functional flexibility, where employees may be multi-skilled
- numerical flexibility, using different types of employment contracts and sub-contracting, as in Atkinson’s (1984) core–periphery concept
- temporal flexibility, where the number and pattern of hours worked varies – for example, zero hours, and annual hours
- wage flexibility, where wages are individualised, and may be performance-related.

A notable early contribution to an understanding of contemporary attempts to change work and workers allocation was Atkinson’s (1984) flexible firm model. This painted a heroic picture involving committed core employees being highly regarded, well-paid and with improved career prospects, and who offer in return functional flexibility, often through multi-skilling. On the periphery are the distanced externals: the ‘atypical’, ‘non-standard’ or ‘non-core’ workers (described in negative terms) with low security to ease the organisation’s needs for adjustments to market forces. There are important ethical undertones to such a distinction, Clegg et al (2008) suggesting that the periphery itself comprised two sub-groups. These were firstly workers who were semi-skilled operating in the lower rungs of the supply chain and who could be easily dismissed and re-employed according to cost and demand fluctuations. The other sub-group was an underclass working (possibly illegally) in poor conditions outside the formally recognised labour market. Such workers do not show up in official statistics or most research studies and so remain outside the scope of most discussions of
worker flexibility – but they are real, nonetheless. Later in the chapter we look again at the dark side of flexible working.

Current observations are that organisational forms are changing: bureaucracies are being dismantled and replaced by looser, networked organisational forms and processes, featuring partnerships and contracting-out of activities. ‘In the name of right-sizing, de-layering and concentrating upon core competencies, the outsourcing of services continues to expand’ (Marchington et al 2005, p2) as organisations move from vertical towards horizontal integration. With this come changes in the employment relationship. Marchington et al (2005, p18) present an additional dimension to the understanding of employment flexibility – namely, the extent to which the employment contract is under the influence of a single employing organisation or subject to control or influence by multiple employers, as might be the case with agency workers (Figure 9.1). This axis is added to the previously accepted continuum depicting variations in the internalisation or standardisation of the employment contract (as in the core–periphery concept).

Figure 9.1 The twin dimensions of employment flexibility

As the authors describe, the internalised, standard employment relationship is seen in the bottom left-hand corner. In the top right-hand corner is self-employment, ‘where there is no contract of employment and where the self-employed individual sells his or her skills to a range of organisations and is, therefore, not dependent on a particular organisation for income’ (ibid, p18).

The horizontal axis, from employees to non-employees, depicts the shift away from internalised full-time employees to a diversification of contracts including...

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part-time, casual, temporary, and self-employed workers. ‘Part-time work might be considered to be close to the standard contract as there is nothing in principle stopping part-time work being organised on the same basis as internalised, full-time work with the same social rights and same regularity of employment’ (ibid, p18). At the extreme of where the guarantees of employment and income are, at best, short-term are the so-called pseudo self-employed workers, who often work at a distance from the employer – such as homeworkers and freelancers – ‘but who may be highly dependent upon one employer, even if there is no formal contractual guarantee of continuous employment or minimum income’ (ibid, p19).

In the centre of the field we find temporary agency workers, in ambiguous circumstances: self-employed yet employed, where the agency is commonly regarded as the legal employer, even though it is the client who exercises control. ‘The employing organisation, which acts as host to the temporary agency workers, directs their work activities side-by-side with those of direct employees on similar tasks . . . This employment relationship [involves] both deviations from the status of direct employees, and control from more than one employing organisation’ (ibid, p19).

The top left-hand side ‘covers an area where employment is internalised but where there is more than one employing organisation that can be considered party to the relationship’. Here ‘there is a direct employment relationship but other employers – acting as agents or suppliers – may be involved in the employment experience, and even in controlling the employment relationship’ (ibid, pp18–19).

WORK INTENSIFICATION AND WORK–LIFE BALANCE

Recent years have seen an increasing number of organisations in the UK offering a range of flexible working options to their employees. For many employers this has been a response to increasing interest in work–life balance, the need to be competitive in the labour market, and the introduction of legislation giving parents of young or disabled children and, more recently, carers, the right to request flexible working arrangements (Kelliher and Anderson 2010, pp83–4).

In a more critical vein, attention is drawn to other aspects of the work–life balance concept by Eikhof et al (2007) where ‘beyond working time and the provision of flexible working practices to enable child care, there is little in the debate about the need to change work per se’. These authors also comment that the work–life debate ‘narrowly perceives “life”, equating it with women’s care work – hence the emphasis again on family-friendly policies’ (ibid, p326).

We can detect that flexibility, lying at the heart of the wage-work bargain, means different things to the different parties to the deal. Whereas conventional definitions are expressed from the point of view of the employer or organisation, descriptions of the consequences for the worker are required in the interests of balance.
It is possible to glimpse an unanticipated consequence of adopting flexible working practices – that of work intensification. While reporting evidence that flexible workers record higher levels of job satisfaction and organisational commitment than their non-flexible counterparts, Kelliher and Anderson (2010) also report evidence of work intensification being experienced by both those who work reduced hours and those who work remotely. It is suggested that the apparent paradox of high job satisfaction and organisational commitment alongside work intensification can be explained by employees trading flexibility for effort. Employees respond to the ability to work flexibly by exerting additional effort, in order to return benefit to their employer.

Three means by which intensification may take place have been identified (ibid, p86). Increased effort may be imposed (as when workloads may increase following downsizing), enabled (because flexible working patterns facilitate the exercise of increased effort), or it may be a reciprocal act on the part of employees in exchange for discretion over working arrangements. See the Current research box below for further examples.

Intriguingly, Kelliher and Anderson (2010, p99) suggest that in contemporary workplaces with a ‘prevailing rhetoric of greater personal autonomy’, employees often see themselves as responsible for their own work intensification. To some extent the professional workers in their study may have seen themselves as partly responsible and hence not voiced opposition. However, other studies have also found that employees do not always respond negatively to intensification, especially where they believe they will gain some benefit as a result (ibid, p99).

Kelliher and Anderson’s (2010) interviewees, in a number of UK private sector organisations, vividly illustrate the three means of intensification.

**Imposed intensification**

Workers describe why imposed flexible working, on reduced-hours contracts, has resulted in work intensification. Their workloads had not decreased in line with their hours when they moved to a reduced-hours contract, and consequently they were doing something akin to a full-time job but in fewer paid hours. This could result in both increased extensive and intensive effort.

One interviewee commented: ‘There is enough workload to keep me busy for five days, but I only have three days to do it in, so I either work late, which I do sometimes, or I try and delegate some of it.’ Others described that they felt the need to be available at times when they were not scheduled to be working, but when the business was operating. This took the form of being prepared to take phonecalls and checking emails at times they were not working.

For example, one interviewee reported: ‘On a Monday, when I’m not at work, I’ll typically put in 40 minutes to an hour just checking my emails to make sure that I’m not on top of any issues that come up, or that came up over the weekend . . . so I check the email at least once, if not twice, during the Monday.’
Enabled intensification

By contrast, others – typically, remote workers – describe how working flexibly enabled them to work more intently, exercising both greater intensive and extensive effort. For example: ‘It’s much easier to maintain your energy levels and enthusiasm if you’re working for three days or four days than if you’re working for five days … and keep your efficiency up if you’re just maintaining it over three or three and a half days, rather than five.’

Intensification as reciprocation and exchange

Commitment levels of remote and reduced-hours workers are reportedly higher than those who did not work flexibly. The impact of commitment on effort is illustrated by this worker, who reported greater extensive effort when she worked from home:

‘So you have this kind of loyalty, I guess, which is very deep-seated, to be honest, if people are prepared to treat you as a human being more. . . . I’m not some kind of machine that has to be at the office at nine and five-thirty. I actually do see myself in a more human way, which is around the commitment. . . . When companies support you, you are naturally more loyal and more committed.’


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**THE BUSINESS BENEFITS OF FLEXIBLE WORKING**

We commonly hear managerial descriptions, in unitary terms, of flexible working arrangements featuring options which allow employees to strike a work–life balance which fits with their needs and yet gives the employer a say in the decision-making process (Wight 2007). Elsewhere we find descriptions of flexible working delivering improved business performance on service delivery and customer satisfaction, efficiency savings, and reduced recruitment and retention costs (Thomson 2008). Examples of this flexible working include part-time work, job-sharing, flexi-time, working school hours, nine-day fortnights, mobile working, and team rotas, which are claimed to give the employees choice in how, when and where they work (see Case study 9.1).

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**CASE STUDY 9.1**

**BENDING THE RULES: SURREY COUNTY COUNCIL EMBRACES FLEXIBLE WORKING**

Surrey County Council has taken steps to ensure that its workers can complete their daily tasks from spaces other than their desk at the office. There have been investments in technology which allow workers to log-in at any PC or any telephone on a certain network, and all social workers have a tablet PC to carry when out of the office. Anything the social worker records on the tablet is instantly added to a database back at the office and is therefore accessible to other staff. Staff are able to check their work emails from home, allowing the option of working from home, and also reducing the dependence on physical office space. Working from different offices or at home, working while travelling, and hot-desking in an office environment can all add flexibility to the working day.
The importance of giving the employees choice in how, when and where they work has led to an improvement in Surrey Council in terms of productivity, reduced sickness levels and financial gains. There has been a 4 per cent reduction in staff turnover, and there are now 700 fewer full-time posts, leading to a decrease in staff costs. The Council has been able to rationalise the property portfolio and standardise IT systems. It has also seen an increase in morale amongst employees as they are given more freedom to choose their working hours, and it shows trust in the employees that they will manage to strike a successful work–life balance.

Taking a broader view, the issue of flexible working has become an increasingly important topic as the Government re-evaluates the employment laws in the UK. All employees, regardless of circumstance, have a right to request a flexible working pattern from an employer. The employer has to weigh up the effect the application would have on the business as a whole. The employer has the right to reject an employee’s flexible working request if it would be detrimental to the business.


Questions
1. Give examples from your own experience of flexible working.
2. Were your feelings towards flexible working positive or negative – or a mix of the two? Why?
3. How can organisations balance greater employee freedom within flexible working with customer requirements?

FLEXIBILITY: THE IMPORTANCE OF MANAGEMENT INTERVENTIONS

Shift-pattern switch improves staff turnover and recruitment at Seeboard:

High-risk initiative brings rich rewards

Seeboard Energy Ltd is a utility company with around 1.8 million customers, mainly in south-east England. [The company has since been taken over by EDF.] Its customer-contact centre operates 8am–10pm (Saturday 8am–6pm). Staff answer around 3,000,000 calls a year and respond to around 800,000 letters or emails from customers.

In 1999, the company introduced three-week rolling shifts to cover the contact centre’s main hours of operation. The shifts were:

- early: 7.30am–3.30pm or 8am–4pm
- core: 8.30am–4.30pm, 9am–5pm or 9.30am–5.30pm
- late: 10am–6pm, noon–8pm or 2pm–10pm.

The change led to a significant rise in employee turnover, particularly among women. The company also experienced increasing difficulty attracting potential employees – again, particularly women. Commercially, at an average cost of £3,000 to recruit and train an employee, it was proving an ineffective use of the company’s resources.

Staff focus groups were set up in July 2000, and team leaders and managers asked employees to give their views. In addition, questionnaires were sent out to staff. Findings indicated one major issue: the three-week rolling shift pattern did not provide staff with enough stability with which to balance their home and
work commitments. In particular, this was an issue for women with childcare responsibilities, because it made arrangements for childcare much more complex.

The company’s solution was to introduce fixed shift patterns. It piloted the approach in an area of the organisation that had the highest number of vacancies (150). Under the three-week rotational shift system, staff turnover was 20%, more than 65% of this figure being women. By April 2001, under the fixed shift system, this had halved to 10%, with 50% of this figure made up of women. In addition, over a one-year period, the response rate to recruitment advertisements improved significantly, and many of the applicants were women.


The Seeboard example above shows clearly the importance of effective management of flexible working and, in particular, consultation with the employees who will actually experience the changed arrangements. The importance of monitoring reactions, post-implementation, is clearly demonstrated in this case.

We have already drawn attention to the dark side of flexible working, and this was highlighted in the UK context by Toynbee (2008) – see below.

**APPALLING CONDITIONS**

Labour MPs representing the poorest places see how appalling conditions under bad employers can be. They see where agency workers are brought in to undercut existing wages – remember Gate Gourmet. (The airline catering firm Gate Gourmet was involved in a high-profile dispute with employees at London Heathrow Airport in 2005.) Or where workers who want to be taken on permanently are fired and rehired to avoid them acquiring rights. They see how outsourced NHS cleaners, and workers throughout the public sector, are denied a chance they once had to work their way up. Agencies don’t train people to fill higher-level jobs for which they are not contracted.


An alternative to the conventional wisdom regarding the economic necessity of flexibility, at both global and individual levels, is provided by Giles *et al* (2010) below.
The Failings of Flexibility

For years, it has been the settled view in economics that, in most cases, flexible labour markets are best. More jobs might be lost in a downturn, but this cost was far outweighed by the benefits of flexible pay and the ease of reallocating jobs from dying industries to dynamic ones. No body was more closely aligned with such recommendations than the Organisation for Economic Co-operation and Development, the Paris-based club of developed nations. But now the OECD is modifying its view. ‘We have been promoting flexibility, not for the sake of it, but for economic performance and for workers to get into new jobs,’ says Stefano Scarpetta, the OECD’s head of employment analysis.

This motivation is allowing a change of view. ‘Judging from the outcomes so far, short-time working schemes [such as in Germany, in which people work fewer hours while the government tops up their pay, although there are questions about whether this merely delays job losses] seem to have been rather successful in containing the job haemorrhage,’ he says, adding that even his organisation is ‘a little bit more positive on public works programmes: we argue that as part of a labour market approach, they might be worthwhile.’

While this is not a wholesale repudiation of the OECD’s former views, it reflects the fact that, according to the organisation’s own analysis, the gains in employment flexibility of recent years have failed to protect employees from the economic crisis. ‘There do not appear to be any clear grounds for concluding that workers, generally, are any better or worse prepared to weather a period of weak labour markets than was the case for the past several recessions,’ the OECD concluded in its latest Employment Outlook.

Some top economists argue that the theory of superiority of flexible labour markets applies only at full employment. It will not work well when there has been a large shock to demand, output is well below potential and jobs are effectively rationed. In these circumstances, German-style institutions that cushion and spread the pain are probably superior.


The Benefit of Behavioural Flexibility

Most attention has been given to organisational and labour market flexibility rather than personal flexibility. For firms to be flexible, they depend on the flexibility of the workforce – an orientation, attitude, or style among employees, including team-oriented, lateral and autonomous perspectives (Iles et al 1996, p21). Anell and Wilson (2000, p168) suggest the following qualities might be required in employees:

a desire to seek feedback on performance, a desire to improve, an ability to see multiple perspectives, a broad vision, an ability to visualise relationships, a readiness to accept responsibility for decisions, self-confidence, proactivity, a liking for change and a desire for co-operative independence.

Among senior managers, personal and strategic flexibility and internal characteristics such as problem-solving or creative thinking are desirable. These
authors describe elements of ‘behavioural flexibility’ in managers in terms of: the ability to manage complexity and uncertainty, adaptability, tolerance of ambiguity, openness, empathy, non-judgementalism, interest in others, and willingness to acquire new behaviours and attitudes. Sennett (1998, p62) refers to ‘a particular strength of character – that of someone who has the confidence to dwell in disorder … who flourishes in the midst of dislocation’.

In his book, The Corrosion of Character (1998), Richard Sennett examines the consequences for workers of the need for organisations to operate in highly competitive markets. He suggests that the flexibility they need to display, the willingness to accept change, and the loss of security that results can have damaging effects on personal character.

Character, he argues, is an emotional experience that involves loyalty, mutual commitment and the pursuit of long-term goals. As society pursues immediate needs and businesses seek to respond to the consequent short-term goals, organisations find themselves regularly needing to restructure and redesign. In such a new economy, he suggests, character traits are damaged with negative effects on workers’ morale and motivation. People thus co-operate but without any underlying commitment – ‘superficial co-operativeness’.

Professional-services firm PricewaterhouseCoopers (PWC) is described as a knowledge-driven organisation. When its employees leave, the firm not only loses the training and knowledge they have built up but also the client relationships they have developed.

PWC now has a strategy based around choice for its employees, whose average age is only 27. There is a generous scheme of maternity and paternity leave, childcare vouchers for returning mothers, and other benefits. Moreover, most employees are equipped to be able to work from home, and almost all of them choose to do this at least once a month.

The company has launched an in-house concierge service. Employees are offered a wide range of domestic services at discount price. They include activities [such] as waiting in for plumbers, builders and electricians. Take-up appears to be greatest among company consultants, who often work offsite for months.

PWC has also introduced the notion of ‘paid time off’, rather than the more restrictive ‘annual leave’. Employees can use their paid time off allocation for short-term illness, childcare and jury service, as well as holiday.

According to the author, the strategy appears to be successful. Despite skill shortages in the consultancy sector, staff retention at PWC has improved by between 4 and 5 per cent over the last year.


Questions

1. What does this case show us about the benefits of flexibility to organisations and staff?

2. Is this type of flexibility restricted to the type of professional worker employed by PWC, or could and should it have wider application?
The parties’ responses to each other’s requests for flexibility within the wage–work bargain, worker and ‘employer’, are likely to be inextricably interlinked. The concept of the psychological contract provides us with a suitable lens through which to view this aspect of leading and managing people.

### The Psychological Contract

Although questions have been raised about its meaning and value (Guest 1998), the concept of psychological contract has become a central theme of people management. It describes the employment relationship in terms of mutual expectations or obligations, in order to make sense of the range and degrees of commitment that flow in both directions. It is here that organisational policy and procedures mix with individual managerial and employee attitudes and behaviours, with complex outcomes.

There are two main definitions of the psychological contract (Marks 2001). The first is derived from the work of Argyris (1960) and Schein (1978) and refers to the perceptions of mutual obligations held by the two parties in the employment relationship: the organisation and the employee (or worker). The second definition, which is based on the work of Rousseau (1995, p9), asserts that the psychological contract is formulated only in the mind of the employee and is therefore about ‘individual beliefs, shaped by the organisation, regarding terms of an exchange between individuals and their organisation’.

According to Rousseau (1995, p1), the ideal contract details expectations of both the employee and the employer, but these contracts are incomplete and so become ‘self-organising’. A contractual continuum is commonly offered, from transactional (covering incentive pay and well-specified performance levels) to relational (including loyalty and concern for employee well-being). Transactional terms are exemplified by ‘a fair day’s work for a fair day’s pay’ and focus on short-term (and usually monetary) exchanges. The relational contract ‘focuses on open-ended relationships involving considerable investments by both employees (company-specific skills, long-term development) and employers (extensive training)’ (ibid, p91).

A useful typology is offered by Rousseau (Table 9.1), using the dimensions of time-frame and performance requirements, who (1995, p98) says that four types of contract emerge ‘with distinct behavioural implications for workers’:

- transactional contracts – of limited duration with well-specified performance terms
- transitional or ‘no-guarantees’ contracts – essentially a breakdown in contracts, reflecting the absence of commitments regarding future employment as well as little or no explicit performance demands or contingent incentives
- relational contracts – open-ended membership but with incomplete or ambiguous performance requirements attached to continued membership
- balanced contracts – open-ended and relationship-oriented employment with well-specified performance terms subject to change over time.
### Table 9.1 Types of psychological contract

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<th>Duration</th>
<th>Performance terms</th>
<th>Specified</th>
<th>Not specified</th>
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<tr>
<td></td>
<td></td>
<td>Transactional</td>
<td>Transitional</td>
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<td>(eg retail checkout operators employed during Christmas season)</td>
<td>low ambiguity</td>
<td>ambiguity/uncertainty</td>
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<td>easy exit/high turnover</td>
<td>high turnover/termination</td>
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<td>Short-term</td>
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<td>low member commitment</td>
<td>instability</td>
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<td>freedom to enter new contracts</td>
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<td>little learning</td>
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<td>weak integration/identification</td>
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<td>Balanced</td>
<td>high member commitment</td>
<td>high member commitment</td>
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<td>Long-term</td>
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<td>high integration/identification</td>
<td>high affective commitment</td>
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<td>ongoing development</td>
<td>high integration/identification</td>
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<td>mutual support</td>
<td>stability</td>
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<td></td>
<td>Relational</td>
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In other words, ‘the psychological contract’ is a term for describing what is implicit in terms of reciprocity and exchange within the employment relationship.

It is suggested (CIPD 2005, p3) that employers have been encouraged to take the psychological contract seriously due to changes ranging from the need for externalised workers to display functional flexibility, to the survivors of down-sizing carrying ‘more weight’, and ‘human capital’ becoming more critical to business performance.

**IMPLICATIONS FOR THE MANAGEMENT OF PEOPLE**

The CIPD (2005, p6) describes ‘getting’ commitment from employees by drawing on the motivators contained within Herzberg’s two-factor theory, outlines what organisations ‘need’ to do, and draws attention to the importance of the line manager role, in these terms:

Research suggests that in order to feel committed employees must feel satisfied with their work. Job satisfaction is more likely to be achieved where the employer offers employees what they want. Surveys consistently show that employees generally want interesting work, opportunities to develop, fair treatment and competent management. The line manager has a key role to play in maintaining commitment. Employers need to focus on tapping in to what employees are looking for and how they feel about their...
work. They need to involve and engage them. And they need to train line managers in how to manage people.

We might consider to what extent employers can indeed offer what employees want in many sectors of the economy. A flavour of the confidence to be found in some HR literature is provided by Hiltrop’s (1996) reassurances, lack of doubt and claims for what employers must, and should do.

Recent work has emphasised the notion of engagement. This is defined by the CIPD (2010) as ‘employees internalising and emotionally connecting to the organisation’s core purpose’. The same CIPD survey emphasised the role of line managers in motivating via an engaging team management style, following on from the 2005 work cited above.

MANAGING THE CHANGING PSYCHOLOGICAL CONTRACT THROUGH REWARD

There is no doubt that increasing competition and changing expectations among employees have prompted a growing disillusionment with the traditional psychological contract based on lifetime employment and steady promotion from within. Consequently, companies must develop new ways to increase the loyalty and commitment of employees.

For instance, given the pressure to do things better, faster and cheaper, reward systems should recognise contribution rather than position or status. Reward strategies may also be used to rebuild commitment for survivors in downsizing organisations.

In addition, considering the shift towards decentralisation and empowerment, it is essential that individuals and groups are given more responsibility over salary decisions. Furthermore, rewards should be based on continuous performance and continuous improvement rather than on single events or past achievements.

THE FLEXIBLE FIRM AND CONTINGENT WORKERS

Theories of the psychological contract have been built around full-time permanent employment and there is discussion about the extension of the concept to incorporate the experience of contingent workers. As Marchington et al (2005, p78) point out:

Temporary agency workers attempt … to satisfy their obligations simultaneously to two employers – the agency and the client. This simultaneity raises questions about organisational commitment and loyalty.

‘Forced’ changes to contracts

Earlier in this chapter, ‘imposed intensification’ of work was noted when employees were subjected to reduced hours contracts. Saunders and Thornhill (2006) explore the implications for employees’ psychological contracts in conditions of a forced change from permanent to temporary employment status for some employees.
within an organisation. They suggest that permanent employees generally continue to exhibit relational forms of attachment to the organisation. These ‘the employees believe’ are reciprocated by the organisation. Reactions from forced temporary workers are more varied. After a period of denial, some develop a more calculative approach to their interactions. Others maintain aspects of their previously developed relational attachments. Only some temporary workers appear to recognise that their future direction is no longer a concern of the organisation.

Although only based upon one organisation, Saunders and Thornhill (2006) suggest that the process of psychological contract adjustment is likely to emerge through gradual re-interpretation, rather than through re-negotiation.

Since commitment within the psychological contract is assumed to be based on ‘volition’, lack of volition and conflicts of loyalty will have an effect on psychological contracting among contingent workers. We might expect non-permanent staff to show a more transactional approach, and show less commitment, than permanent staff. Research evidence provides ambiguous results. In a call centre environment, Biggs and Swailes (2006) found that agency workers had a significantly lower level of organisational commitment compared with permanent workers. However, this is not necessarily the case according to MacDonald and Makin (2000, p89), who suggest that ‘the observance and commitment to the norms, symbols, and rituals of desirable groups is often higher among those just outside, but wishing to join, the group than it is among established members.’ From the same authors we hear of higher levels of organisational commitment and job satisfaction among some temporary staff. One possible explanation, it is suggested, may lie in the short tenure of non-permanent staff within the organisation.

Contract breach

To what extent can we come to understand the concept of the psychological contract through examining its being breached or violated? Coyle-Shapiro and Kessler (2000) describe the situation in which a majority of employees have experienced contract breach in a large local authority directly responsible and accountable for a range of public services including education, environmental health and social care to the local population. This view was also supported by managers, as representatives of the employer, who further indicated that the organisation, given its external pressures, was not fulfilling its obligations to employees to the extent that it could. Overall, the results indicate that employees redress the balance in the relationship through reducing their commitment and their willingness to engage in organisational citizenship behaviour when they perceive their employer has not fulfilled its part in the exchange process.

A range of individual responses

There is a ‘complexity of feelings’ towards, and reactions resulting from, becoming a temporary worker, according to Saunders and Thornhill (2006, p452) where the attractions associated with obtaining greater freedom have also been associated with greater insecurity, potentially less control over hours of work and working patterns, and a continuing need to find new work. These ideas of
preference for temporary work have been linked to workers’ skill and knowledge levels to produce a typology of temporary contracts (Marler et al 2002, cited in Saunders and Thornhill 2006, p452):

- boundaryless worker – high preference for temporary work and a high skills/knowledge level
- permanent temporary worker – high preference for temporary work and a low skills/knowledge level
- transitional worker – low preference for temporary work and a high skills/knowledge level
- traditional worker – low preference for temporary work and a low skills/knowledge level.

This typology ‘implies that personal preferences for temporary work are likely to influence feelings towards different types of psychological contracts. In particular, high preferences for temporary work would seem likely to accentuate positive feelings towards transactional-oriented psychological contracts, whereas low preferences for temporary work would accentuate negative feelings towards transactional-oriented psychological contracts’ (ibid, p452).

**OLD AND NEW PSYCHOLOGICAL CONTRACTS**

The terms of the new contract are still unclear, although the material so far in this chapter has provided us with insights, but Maguire (2002) presents a number of distinctions between the old and new psychological contract which are shown in Table 9.2.

As Maguire (2002, p8) puts it:

’The key differences between the ‘traditional’ and the ‘new’ psychological contract relate to the decreased expectation of paternalistic human resource practices, the replacement of the concept of organisational worth with ‘self-worth’, the substitution of personal accomplishment for promotion as the route to growth, and the decreased importance of tenure.’

**Table 9.2 The distinction between ‘old’ and ‘new’ characteristics of psychological contracts**

<table>
<thead>
<tr>
<th>Old contract</th>
<th>New contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisation is ‘parent’ to employee ‘child’</td>
<td>Organisation and employee enter into ‘adult’ contracts focused on mutually beneficial work</td>
</tr>
<tr>
<td>Employees’ identity and worth are defined by the organisation</td>
<td>Employees’ identity and worth are defined by the employee</td>
</tr>
<tr>
<td>Those who stay are good and loyal; others are bad and disloyal</td>
<td>The regular flow of people in and out is healthy and should be celebrated</td>
</tr>
<tr>
<td>Employees who do what they are told will work until retirement</td>
<td>Long-term employment is unlikely; expect – and prepare for – multiple relationships</td>
</tr>
<tr>
<td>The primary route for growth is through promotion</td>
<td>The primary route for growth is a sense of personal accomplishment</td>
</tr>
</tbody>
</table>
The CIPD suggests (2005, p4) that the ‘old’ psychological contract is ‘in fact’ still alive, and that surveys show the majority of employees feeling satisfied with, and not worried about losing, their jobs. However, these surveys also show that there are concerns about long hours and work intensity, and that levels of trust in the organisation have fallen, particularly in the public sector.

It is commonly heard that the ‘old’ psychological contract, with its emphasis on employment security, has been held to have been violated because of extensive downsizing among white-collar employees from the late 1980s and early 1990s (Mumford 1995). This proposition has been examined by Beaumont and Harris (2002), using data from UK manufacturing industries for the years 1978–95. The authors call into question the view that historically high and sustained downsizing among white-collar employees was a leading cause.

Examining the psychological contract in terms of the parties’ fulfilment of their obligations to each other highlights gaps in what employees expect and receive from their employer as well as discrepancies in what employees feel they owe the employer and actually give. This is illustrated in Simon Caulkin’s findings, set out below.

**Activity 9.1**

Thinking about the organisation you work for or one with which you are familiar, to what extent is employment characterised by ‘old’ or ‘new’ contracts? To what extent do you envisage your career developing with multiple employers? If you find this picture realistic, will your loyalty to any one employer be diminished?

Simon Caulkin reports on research by the Work Foundation on the motivation of the newest generation of workers, the 18- to 24-year-olds

Employers need to understand better how Generation Y, as the Work Foundation researchers term them, differs from previous cohorts of workers, and what that means for employment policies. For young workers, the new implicit contract of employability, rather than a job for life, is the only one they have known. And they have learned its lessons fast. Accordingly, they have developed a much more instrumental approach to employment than their predecessors. They have high expectations of career development and gaining early responsibility, and attach substantial importance to the employer’s ‘brand’ – not just out of desire to work for a company that matches their own values, but also with an eye to improving their CV.

The Work Foundation terms this ‘gold-dusting’ – buffing their record to attract other employers. Loyalty to the organisation lasts only as long as they are achieving personal goals.


**Loyalty of Young Workers: Evidence of the New Psychological Contract?**

A free sample chapter from Leading, Managing and Developing People, 3rd edition. by Gary Rees and Ray French
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We can conclude that contextual factors are key to understanding the psychological contract. If the employer is felt to have breached the contract, should we then automatically assume that employee behaviour will necessarily be affected negatively? It seems that, in times of high job insecurity, employees may be less inclined to display negative behavioural outcomes due to the power disparity between the employer and employee, or to fear of redundancy, although attitudes towards the employer will be changed, if not translated into action.

THE PSYCHOLOGICAL CONTRACT AND RETENTION

Roger Eglin, writing in the Sunday Times, suggests that emotional ties – rather than just money – are vital in getting good managers to stay with their employers.

A group of 476 Henley alumni were questioned about their relationship with their employers. Of the replies, 11% were couched in what are described as transactional terms, while a compelling 52% came down in favour of a relationship contract. ‘They want a more effective relationship with issues such as aspiration, equity and community remaining important … For those who have the talent and can make a choice, this is what counts.’

With some jobs set to move to India, Barclays Bank has struck a deal with the Unity trade union to help those affected. But rather than losing people through redundancy, Barclays is offering them training-and-development opportunities to make them more ‘marketable’ within the Bank.


FLEXIBILITY, PSYCHOLOGICAL CONTRACTS AND PERFORMANCE

The concepts of flexibility and the psychological contract are essentially transactional involving reciprocal views concerning the quality of relationship between employee and organisation. It is now appropriate to revisit the links between people management and organisational performance.

Organisations seek to identify the link between people and performance (Purcell et al 2003), and the concept of high-performance working (HPW) (CIPD 2003, CIPD 2004, DTI 2005) is characterised by references to flatter, non-hierarchical structures, moving away from reliance on management control towards teamworking and autonomous working based on high levels of trust, communication and involvement. Whether the focus is on profit and shareholder value in the private sector or on outputs and service levels in the public sector, performance is now the currency.
Purcell et al’s (2003) study on the impact of people management on organisational performance was intended to show the way in which HR practices – or what the CIPD terms ‘people management’, meaning all aspects of how people are managed – impact on performance. The study was conducted within a framework which claims that performance is a function of people’s ability (knowledge and skills), their motivation, and the opportunity they are given to deploy their skills (referred to as AMO). The authors concluded that a range of 11 HR policies and practices are required to turn this into action, and a model was devised covering recruitment and selection, training and development, career opportunity, communications, involvement in decision-making, teamworking, appraisal, pay, job security, job challenge/job autonomy, and work–life balance.

These performance-related HR policies encourage people to exercise a degree of choice on how and how well they do their job. In other words, they help induce discretionary behaviour which makes people work better and improve performance. This happens because the HR policies and practices develop positive employee attitudes or feelings of satisfaction, commitment and motivation.

(Purcell et al 2003; see Figure 9.2 below)

Some HR policies and practices were shown to be particularly important in terms of influencing employee outcomes like commitment, job satisfaction and motivation. These were those concerned with career opportunities, job influence, job challenge, training, performance appraisal, teamworking, involvement in decision-making, work–life balance, and having managers who are good at leadership and who show respect.

Among the implications for HR policy and practice is operational measurement rather than ‘remote’ measures of profit:

Proving that HR contributes to performance is not a major issue, and measures which use profit or shareholder values are too remote from the practice of people management to be useful. What is important is operational measurement where a close link can be observed, and the regular collection of these measures covering people, operational, financial and customer areas is commonly done in the best firms.

We can conclude that the responsibility for enacting the policies rests with front-line managers, since these are the people with whom workers theoretically interact. In Hutchinson and Purcell’s (2003) framework, ‘organisation process advantage’ – the way these policies are implemented – is what makes a difference. Put another way, ‘It’s not what you do; it’s the way that you do it.’

The CIPD (2007) Standards for Leadership and Management are placed in the language of performance infrastructure (‘critical failure factors’) and differentiators (‘critical success factors’). The former describe what is needed to do things right (efficiency) and deliver acceptable levels of behaviour and legal compliance, although it is observed that mere adherence to process seldom generates high-performance outcomes. The latter describe what is needed to do
Figure 9.2 The people and performance model


the right things (effectiveness) and, the proponents claim, deliver ‘genuine’ people involvement, commitment, engagement and added-value contribution. There are connotations of Herzberg’s two-factor theory of motivation, which we discuss in Chapter 11, here: ‘infrastructure’ linking with hygiene factors and ‘differentiators’ involving motivators. The 11 policy areas (Purcell et al 2003) are seen as the performance infrastructure requirements, while the ways in which front-line managers deliver the policies – implementing, enacting, leading and controlling – are seen as the differentiators. It is claimed that these are ‘directly related to the
levels of commitment, motivation and satisfaction that employees report, and this, in turn, is linked to the vital area of discretionary behaviour’ (Hutchinson and Purcell 2003, p3).

In 2010 the CIPD’s report on sustainable organisational performance concluded that sustainable organisations would need to have a balanced short- and long-term focus and, crucially, agility to adapt to challenges and opportunities. It is clear that the notion of flexibility coupled with the need to ensure engagement via positive psychological contracts is crucial in this regard. The same report emphasised the need for leaders who regard employees as a core asset. We have seen that the management of flexible working should have at its centre a preoccupation with the people involved and should both be implemented and reviewed through consultation with those most closely involved.

There are very clear and important links between understanding the concepts, operationalising them via effective management, and subsequent organisational performance.

**CONCLUSION**

Organisations concentrate upon meeting the needs of their stakeholders: shareholders and customers in the private sector, government and service users – now increasingly ‘consumerised’ – in the public sector. Responsiveness to the ‘whip’ of the market, previously a private sector concern, is also now increasingly required in the public sector as it becomes ‘marketised’. The organisation and its workers, internal or external, core or contingent, are required to focus on performing.

Agile response is the order of the day as time-frames are shortened, and so flexibility is sought, from collective and structural flexibility, to individual and behavioural. As organisations are re-engineered and downsized, and spans of control are increased, management attention is devoted to the increasingly autonomous worker, without losing control. To better understand the discretionary element of employment relationships, the psychological contract, and its management, has become a focus of attention.

It seems that the air is filled with managerial information and messages, suggesting what might or should be done. There are confident, sometimes strident, assertions and claims, based on research findings and examples of what appears to be best practice, and some of these might remind us of Pollert’s (1991) ‘desperate search for panaceas’. Amongst this traffic it is possible to detect strengthening signals, describing increasing intensification of work and workers feeling pressurised. Where there is not a readily available pathway for workers to transmit signals of this sort, the alternative is to send messages through changed behaviour or attitudes. The reader, and the HR practitioner, then has the difficult task of listening to and making sense of the sometimes conflicting information at his or her disposal.
REVIEW QUESTIONS

1. Critically assess the respective advantages and disadvantages to organisations and to employees of the different forms of workplace flexibility.
2. Identify and evaluate the specific actions that managers can take that will improve employees’ psychological contract with the organisation.
3. Evaluate the role of front-line managers in influencing the discretionary performance of individuals within the organisation.
4. How might the performance of outsourced workers be managed or controlled in order to sustain satisfactory outcomes for customers and service users in ‘networked’ private and public sector organisations?

FURTHER READING


