

The psychological contract in a changing work environment

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Abstract

This paper examines how organisation changes, driven by economic, social and technological changes at the macro level, have impacted on the psychological contract. Whilst criticised for being an ill-defined concept, it is usually taken to refer to 'the implicit relationship that exists between individuals and their employer concerning perceived mutual obligations and expectations'. Although its origins can be traced to 1960, the concept attracted minimal academic and practitioner interest until the last decade or so.

Research evidence is discussed, which shows how the psychological contract is changing. It is generally agreed that, the 'old' contract offered steady financial rewards, security and career structure in return for loyalty, commitment and trust in the organisation. The 'new' or emerging contract emphasises 'employability', which according to many researchers and practitioners compensates for the loss of traditional rewards. Evidence presented here suggests that employability is a redundant concept for all but the minority of the workforce. It also suggests that due to its complexity, diversity and fragility, the psychological contract cannot be managed in any simplistic, generic sense. It can be managed only at the individual level, an unrealistic expectation for the majority of organisations.

Nevertheless, it is also suggested that the psychological contract is worth taking seriously if it is thought of in terms of the foundations upon which it is based. The paper discusses the concept in terms of the function it serves in providing a degree of predictability, security and control. It is also described as a reciprocal agreement through which parties to that agreement try to maintain balance between inputs and rewards. When conceptualised in these terms, its significance and the role that it plays in organisation life becomes clearer and it is no longer necessary to specify its content.

The effects of organisation change on the factors underpinning the psychological contract are discussed. The immediate and longer term challenges facing management are identified. The paper then describes the relevance of organisation justice (fairness principles) in overcoming some of the difficulties associated with change management. It argues that perceptions of fairness, through involvement and effective communication provide an opportunity for employees to accept and adapt to changes in the psychological contract. The paper concludes with a suggestion that partnership might represent a means of developing and sustaining a more stronger and more robust psychological contract, thus enabling organisations to meet the future challenges they face.

Introduction

Argyris first referred to the psychological contract in 1960 in terms of the relationship between employer and employee. Following observations and interviews conducted in two factories, Argyris suggested that a psychological work contract or understanding would develop between the foremen and employees if the foremen respected the norms of employees' informal culture. He argued that employees would maintain high production and low grievances if they were left alone, received adequate pay and they were guaranteed secure jobs. In other words, he was proposing that a relationship existed that potentially, had a stronger influence on employees' performance and attitudes than the formal contract of employment. However, Argyris referred to the psychological contract only in passing, and Levinson et al (1962) claim to have been the 'father' of the concept. They defined it as 'the unwritten contract, the sum of the mutual expectations between the organisation and employee'. Schein (1965) also made references to a psychological contract. Nevertheless, whilst these early writings highlighted the significance of the concept, and its theoretical underpinnings (for example social exchange theory, Blau, 1964; equity theory, Adams, 1965) have been of interests to social scientists for nearly fifty years, few psychological contract studies were carried out until recently. It is only in the last decade that research in this area became of interest within organisational behaviour, human resource management (HRM) and organisational psychology. Academic publications, references in management texts, as well as practitioner discourse, have since increased dramatically.

Whilst it is clear that Argyris, Levinson and Schein were referring to an implicit but mutual understanding between employer and employee, their definitions have more recently been challenged. Rousseau for example, who has been influential in psychological contract research, provides a much narrower definition.

'The psychological contract is the *employee's* perception of the mutual *obligations* existing with their employer'. (Rousseau, 1990: 391) (Emphases added).

This definition sets the borders around the psychological contract as only the *employee's* perception about the mutual *obligations*. Researchers appear to agree that studying the concept from the organisation's perspective is problematic and runs the risk of anthropomorphizing. Who or what, for example, represents the organisation? As Schalk and Freese (1993) point out, 'an organisation can hardly be considered as a uniform set of expectations, rather it is a multiple collective of diverse and differing expectations held by a whole set of actors'. Thus the collection of reliable and valid data representing the organisation's side of the psychological contract is difficult and the majority of studies focus on only the employees' perception.

The significance of the psychological contract

Most research publications refer to the psychological contract as a mental model, or schema, which people use to interpret their world and generate appropriate behaviours (Rousseau, 1995). Simply stated, schemas develop through experience and they provide a basis for the interpretation of information, events, and actions (Gioia and Sims, 1978). In an employment context, they can be thought of as an individual's belief structure of what is expected to occur in the organisation and what is expected of them. In a stable work environment, employees can rely upon schemas or mental models as a means of interpreting and predicting their organisational world and the employment relationship. The psychological contract

also provides a sense of control. It gives employees the feeling that they are able to influence their destiny in an organisation since they are party to the contract and because they are able to choose whether they carry out their obligations. Thus, its primary function is one of uncertainty reduction, giving employees a greater sense of predictability, security and control (McFarlane Shore and Tetrick 1994; Rousseau, 1994).

Researchers also agree that the psychological contract constitutes a reciprocal (although implicit) agreement between employer and employee by which one is obligated to give something in return for something received; it is essentially an exchange relationship. According to social exchange theory (Blau, 1964) participants in the relationship, will try to maintain a degree of balance between their inputs and the rewards they receive; hence the strain towards reciprocity. An employee's decision to fulfil their (perceived) obligations to the organisation will be based upon the degree to which they perceive the exchange relationship between themselves and their employers as equitable. Anderson and Schalk (1998) suggest that:

'An employee weighs his or her obligations towards the organisation against the obligations of the organisation towards them as an employee and adjusts behaviour on the basis of critical outcomes' (1998: 640).

For example, if employees perceive that the organisation treats them fairly, respects their efforts and rewards them justly, they will feel obligated to reciprocate by working hard and avoiding harming the organisation (Gouldner, 1960). Guest et al (1996), suggest that the strength of the psychological contract is dependent on how fair the individual believes the organisation is in fulfilling its perceived obligations above and beyond the formal written contract of employment. This in turn determines commitment to the organisation, motivation, job satisfaction and the extent to which they feel secure in their job (Guest, 1996; Makin & Cooper, 1995; Rousseau, 1994, 996). In other words, promises made by the organisation followed by employee effort lead to expectations of payment or organisational fulfilment of obligations. When fulfilled according to expectations it leads to positive attitudes and a high level of commitment.

According to Pascale (1997), in stable conditions, the psychological contract is reinforced by repeated contributions and reciprocity over time and there is convergence between employer and employee concerning their understanding of the nature of the contract. A history of beneficial acts by both parties contributes to broad open-ended agreements typified by high levels of exchange, which strengthens the psychological contract (Shore and Barksdale, 1998: 733). The greater the degree of perceived mutual obligation, the stronger the social exchange relationship and the greater the likelihood that both the employee and the organisation will benefit because each party to is likely to continue to contribute to a (mutually) beneficial relationship (Shore and Shore, 1995).

Psychological contracts are dynamic, once formed they do not remain static but are constantly evolving through organisational experience. According to Rousseau (1995) they can change without any formal effort to alter their terms. Contract 'drift' refers to internal changes, which happen naturally over time as part of the maturation process, personal development, ageing and the contract's duration.

External factors, such as, organization change or a move to a new position, are likely to change the psychological contract more significantly. Accommodation is where adjustments are made within the framework of the psychological contract. Despite acknowledged changes in working conditions, the same schemas remain

(Rousseau, 1995). An example might be when an employee is asked to work additional hours or change their methods of working. Information is incorporated into existing schemas and adjustments are made relatively easily.

Perceptions of breach or violation can bring about more fundamental changes. Violation is generally referred to as 'the feelings of anger and betrayal that are experienced when an employee believes that the organisation has failed to fulfil one or more of its perceived obligations' (Rousseau, 1996). Robinson and Rousseau (1994) studied MBA graduates throughout the first two years of employment focusing attention on how the psychological contracts' of new recruits are formed and change during the first few months in an organisation. They claimed that 'violation is not the exception but the norm'. Evidence suggests that perceptions of violation may be powerful in predicting some attitudinal and behavioural outcomes, such as the extent and forms of organisational citizenship behaviour: the behaviours, which extend beyond those for which employees are paid (Robinson and Rousseau, 1994; Parkes and Kidder, 1994). Robinson and Rousseau found perceptions of violation to be positively correlated with turnover and negatively correlated with trust, satisfaction and intention to remain.

Perceptions of violation or breach of the psychological contract can be a catalyst for transforming the psychological contract, which is more radical form of change than drift or accommodation. It marks a fundamental shift in the nature of the relationship between the parties, creating a shift in meaning and interpretation. 'Transformation is where an existing contract ends, sometimes through breach or violation and sometimes by completion, and a new contract is created' (Rousseau, 1995; 161). It is suggested here that organisational change, such as the introduction of new technology, downsizing or a change in the written employment contract might represent a catalyst for the transformation process.

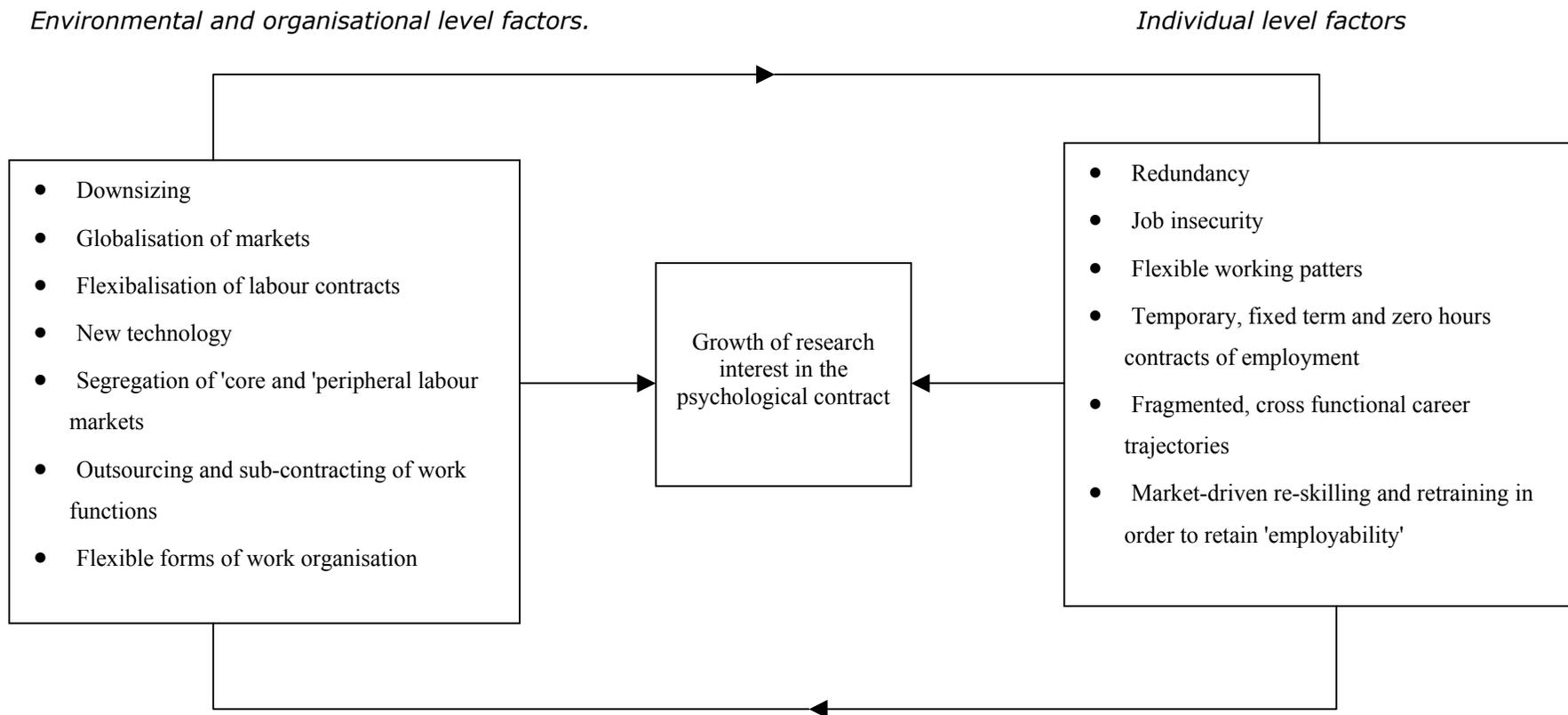
Effects of change on the psychological contract

Given the evidence to suggest that an employee's perception of the psychological contract has a significant influence on their behaviour and attitudes, it is not surprising that in the last decade or so, there has been a growing interest in the concept amongst researchers and practitioners. Much of this renewed interest came about at the same time as some significant economic, political and social changes placed pressures on organisations to change. According to Anderson and Schalk (1998) the shifts in the balance of the reciprocal agreement between employers and employees (as a result of widespread change) have been one of the driving forces behind psychological contract research as a means of understanding changes in employment relations. Some of the external environmental and the individual factors driving psychological contract research are illustrated in figure 1.

The objective for many researchers has been in trying to establish the effects of changing working patterns on the psychological contract. According to Herriot et al (1997) this is because it provides an account of why many organisations are currently experiencing difficulties in the employment relationship. Other researchers suggest that if we can understand how the psychological contract changes, it offers a way forward for managing it through effective Human Resource (HR) initiatives.

Fig. 1 Factors influencing the growth in psychological contract research

(Anderson and Schalk, 1998: 643)



The 'old' psychological contract

Whilst there is no universal agreement about what the content of the psychological contract currently is, it is generally agreed amongst researchers that it has changed over recent years (for example, Blancerio, 1997; Herriot and Pemberton, 1995; Hiltrop, 1995; Kessler and Undy; McLean Parks and Kidder, 1994; Morrison and Robinson, 1997, Pascale, 1995; Robinson et al, 1994; Rousseau, 1996; Sims, 1994; Sparrow, 1997).

Until the last decade, the majority of organisations were described as hierarchical, bureaucratic, and the employment relationship as paternalistic. The organisation's structure and employees' current and future place in it were clear. In exchange for loyalty, commitment and acceptable levels of performance, employees received security, regular advancement opportunities, annual pay increases, reward for outstanding or loyal performance in the form of higher paid posts, additional benefits, and investment in training and development (Capelli, 1997; Pascale, 1995; Sims, 1994). They tolerated bureaucratic aggravation and the occasional domineering boss (Blancerio, 1997). According to Hiltrop, (1995: 287)

'This clarity created predictability, permanence and security for employees and probably led them to see their own long term interests as intimately bound up with the long term fortunes of the organisation'.

Employers, on the other hand, were reasonably confident that their employees' skills would not be immediately lost to another company

In the 'traditional' work paradigm, the psychological contract was straightforward. It existed in organisations that were characterised by 'stability, predictability and growth' (Sims, 1994: 374). The changes introduced in the late 1980s and early 1990s, in responses to external pressures, began to shake the foundations of the paradigm (Herriot and Pemberton, 1997; Hiltrop, 1995; Pascale, 1995; Sims, 1994).

Driving forces for organisation change

Changes at the macro level such as, increasing market competition and customer demands, slower economic growth, globalisation, rising product innovation and the impact of advanced forms of information technology have placed pressure on organisations to be flatter, faster and more flexible and to manage change rather than be submerged by it. For example, in a global economy, competition becomes fiercer by the day and customers demand and expect lower prices, faster deliveries and fewer defects. Surveys conducted by the Department of Trade and Industry (DTI) (1999) and the Confederation of British Industry (CBI) (1999) show that customer expectations and competition, which have increased steadily over the last ten years, are the main drivers for innovation.

We have witnessed a period of continuous attrition, in which companies have downsized, delayed, re-engineered and outsourced to increase productivity, reduce costs and develop new strategies, which focus on speed and responsiveness to changing market conditions (Herriot et al, 1997). The world's largest organisations have reduced their workforce. For example, the finance sector saw the loss of 100,000 jobs between 1991-1994 (Rajan, 1997).

To control fluctuating demands for labour and increase the flexibility of the workforce, there has been a shift from permanent jobs to contractors, leased employees and temporary workers. As organisations focus less on long term

performance, employees are recruited and retained for particular skills, often for only a short time (Herriot and Pemberton, 1996; Pascale, 1995). There have been increasing demands for: better deployment of capital; outsourcing of non core activities; fewer management layers; fewer grade jobs; performance related pay; and fewer processes that amalgamate a number of related functions.

Changes in the psychological contract

Evidence suggests that these changes represented a threat to the reciprocal nature of the psychological contract with consequences for both employees and employers (Herriot et al, 1997; Herriot and Pemberton, 1996; 1989; Sims, 1994). According to Yankelovich (1994) companies do not realise they are violating an unwritten but important social contract they have with workers; they are unaware of the impact they are having.

One of the most significant changes for employees has been the vast drop in job security. Downsizing programmes have affected white collar and management positions that were traditionally protected from economic changes (King, 2000). Older and more educated workers were also more likely to be displaced in the 1990s compared with earlier periods (Capelli, 1997). Furthermore, there has been a significant decline in the likelihood of recall from layoff, which in the past was associated with downturns in business cycles. When businesses improved, employees expected to be called back.

Fundamental changes in organisations' structure and strategy have had a profound effect upon organisational careers, weakening the rungs on the career ladder (Goffee and Scase, 1992). Devolution of responsibility for decisions and budgets reduced the need for supervisory and managerial control (Herriot and Pemberton, 1996: 757). In a study by Ebadan and Winstanley (1997), 72% of respondents rated their career prospects since downsizing as worse. And according to Hiltrop:

'The flexible, delayed, slimmer organisation, constantly changing to suit its volatile and shifting markets, can no longer offer the secure career progression of traditional structures' (Hiltrop: 287).

In addition, reward criteria have been changed; cost of living and seniority-based pay increases are being replaced by performance-related pay based on individual or team contribution.

Whilst organisations might no longer be able to offer the traditional rewards, demands on employees are increasing. Organisation success is dependent not only on reducing costs but on improving the performance of the workforce. What organisations currently expect of their employees may be completely different from what they expected in the past. For example, there is an increased emphasis on creating flexibility to achieve better usage of labour. Organisations empower managers and staff so that they perform more functions under one job title, requiring a multiplicity of skills. According to Capelli (1997) and Sims (1994), employees' job descriptions have broadened. They need to develop and extend existing skills to avoid the risk of skills obsolescence as new technologies are applied. They are also required to have knowledge about company products and services together with problem solving, diagnostic and inter-personal communication skills.

Many employers and investors have reaped the gains from changes in the employment relationship: productivity has increased, high profits are returned to share holders (Capelli, 1997) and executive compensation levels have

mushroomed. The question is: will employees' full potential be realised if the business climate is characterised by job loss and limited career progression? As suggested by Capelli (1997) the norm of reciprocity runs deep in every society and employees who have kept their side of the bargain with long service feel that the contract has been violated if the employer deviates from its obligations.

Researchers draw distinctions between the 'traditional' or 'old' and the 'new' psychological contract (For example, Blancero, 1997; Herriot and Pemberton, 1997; Hiltrop, 1995; Kessler and Undy, Kissler, 1994; McLean Parks and Kidder; Morrison, 1994; Morrison and Robinson, 1997; Rajan, 1997; Robinson et al, 1994; Rousseau, 1989, 1995; Rousseau and Greller, 1994; Sims, 1994; Sparrow, 1997). Sparrow (1997) outlines a number of key features that distinguish the 'old' from 'new' psychological contract (table 1).

Table 1 Changes in the psychological contract		
	Old Contract	New Contract
Change environment	Stable, short term focus	Continuous change
Culture	Paternalism, time served, exchange security for commitment	Those who perform get rewarded and have contract developed
Rewards	Paid on level, position and status	Paid on contributions
Motivational currency	Promotion	Job enrichment, competency development
Promotion basis	Expected, based on time served and technical competence	Less opportunity, new criteria, for those who deserve it
Mobility expectations	Infrequent and on employer's terms	Horizontal, used to rejuvenate organisation, managed process
Redundancy/tenure guarantee	Job for life if perform	Lucky to have a job, no guarantee
Responsibility	Instrumental employees, exchange promotion for more responsibility	To be encouraged, balanced with more accountability, linked to innovation
Status	Very important	To be earned by competence and credibility
Personal development	The organisation's responsibility	individual's responsibility to improve 'employability'
Trust	High trust possible	Desirable, but expect employees to be more committed to project or profession

(Sparrow 1996: 77)

These are consistent with the claims made by many authors working in this area. See for example Hiltrop's (1995) model, ('Past and emergent forms of psychological contract), and Herriot and Pemberton's outline of the features of the new psychological contract in 'New Deals' (1995) and 'Facilitating new deals' (1997).

Some researchers and practitioners suggest potential ways forward for addressing the problems associated with the demise of the 'old' psychological. First, they advocate that concerns about lack of job security and promotion opportunities can be reduced through developing effective HR strategies to increase employees' employability prospects with different organisations. Second, they suggest that some of the problems associated with implementing specific change initiatives can be overcome through managing the changes in the psychological contract.

Employability and the 'new' psychological contract

According to a number of academic and media sources, employability is a key feature of the 'new' or emerging psychological contract. It has been advanced as the mechanism to restore a healthier balance in the exchange between employer and employee (Pascale, 1995). It envisions an arrangement in which both parties accept that work is unlikely to be the long-term proposition it once was. It marks a move away from a paternalistic to a performance culture, from providing lifetime employment with one organisation to improving an individual's employability in many others. In exchange for high levels of performance and commitment in the short term, the company pays higher wages and invests in employee development. This ensures that they are more marketable if it becomes necessary to move on.

Some authors suggest that organisations will be more successful in gaining employees' acceptance of the notion of employability and they will adapt more readily to new ways of working if the message is spelled out clearly for them. According to O'Reilly (1994)

'Companies that make explicit the new rules discover they can elicit a new form of commitment and hard work from employees. ... albeit relations may be far less warm, loyal or familial'.

O'Reilly claims that some of the multi-national corporations (for example Intel, Hewlett Packard, IBM, Apple, and Reuters) found it useful to share as much information as possible with employees so that they can make intelligent decisions about their careers. Regular meetings provide employees with information concerning the organisation's financial health and long term strategic plans. Managers are responsible for helping co-workers recognise if demand for their skills is shifting, and for encouraging them to seek necessary training. Nevertheless, he suggests that the message to employees is clear: 'you own your own employability. You are responsible'.

Rajan (1997) found that similar moves have been made in the finance sector. Banks invested in a series of employee involvement initiatives such as team briefings, attitude surveys, and communication through newspapers and videos. Changes have been reported and explained to the workforce in Barclays, Lloyds, Midland and National Westminster Banks, but these have not been totally successful in conveying the realities of the new employment contract (Sparrow, 1997: 76). In many organisations, issues relating to pay and conditions are the

subject of more communication than issues relating to security and maintenance of employment (Townley, 1994).

Rhetoric or reality?

Does making the 'deal' explicit enable employees to accept and adapt to the changing work environment? Sims (1994:374) is optimistic, claiming that employees understand and accept that they:

- Can expect to have multiple careers
- Have more responsibility for assessing and designing their own careers
- Must seek new definitions of success and
- Need to emphasise lifelong learning to avoid obsolescence of job skills

Other researchers (Earley, 1996; Flinn, 1997; Ramsey, 1999) together with publications in the Observer, Times and Financial Times and an increasing number of practitioners are equally optimistic that employees have accepted a new psychological contract based on employability and that it does represent a way forward.

Evidence suggests that the new generation of young highly educated workers find changes easier to accept (Hammet, 1994). This group wants more opportunities for development, autonomy, flexibility and meaningful work experiences. They want to participate fully in the work environment, react adversely to rigid hierarchies and denounce a lack of involvement in decisions affecting them (Harding 1991). Other researchers, such as Herriot and Pemberton (1996) corroborate these findings.

Whilst this represents good news for younger employees and for organisations employing this group, what about the remainder of the workforce? Research findings (Hiltrop, 1995; Herriot and Pemberton, 1996) indicate that older employees find it the most difficult to manage the changes. Older workers, particularly those over 50, are more likely to emphasise the Protestant work ethic. This suggests that younger, more qualified employees accept the notion of employability more readily than older employees, who may retain a desire for the old psychological contract and a career with one organisation. However, evidence from Ebadan and Winstanley (1997) showed that employees of all ages were 'clinging to unrealistic notions of career', with the expectation of long term employment with their present employer. They believed that career development in a no growth environment could come from expanding their present job. A survey by the Institute of Personnel and Development (IPD) (Stevens, 1995) also found a strong residual attachment to the idea of long term employment and a career with the same organisation, in spite of clear evidence to suggest otherwise.

It has been suggested that many organisations that demand changes in working practices have not changed other aspects of their culture, which the 'new deal' requires and which might encourage the acceptance of employability. Rajan (1997) found that organisations had not clearly articulated the new values they are operating on. They carry over a mixed 'baggage' of old and new culture and thus give out conflicting messages. This in turn undermines the process of change and any attempts to transform performance. Furthermore, the loss of long established trust caused by cultural shifts has made it hard to manage the inevitable ambiguity caused by mammoth change (IRS Employment Trends, March 1997).

Pascale (1995) adopted a pessimistic view when he suggested that only 10% of the blue skilled and white-collar workforce pass the 'employability test'. He claimed that:

'A new social contract predicted on 'employability' is the sound of one hand clapping. Employability is an ill thought through concept infused with more hope than substance' (Pascale, 1995:21).

More cynically, Hendry & Jenkins (1997: 41) claim that 'employability can be seen as a convenient fig leaf to hide the loss of opportunity, while organisations are actually rather powerless to offer anything else'. These research findings suggest that organisations have shown more interest in ensuring internal employability (to retain skills) than external 'employability' (to give them away).

A more recent study by Rajan (1999) shows that many employers have dropped the term from their vocabulary and others have redefined it to mean people's future employability *within* the company rather than outside it. Because of the costs of training and development and low returns and with the vast numbers of staff shed over recent years, remaining employees are more valuable. Furthermore, with flatter organization structures, organisations are unable to utilise the newly acquired skill of their employees. While the job for life culture might have gone for good, Rajan argues that employees can expect a degree of job security provided they can demonstrate their contribution to the organisation. Performance not paternalism, he argues is key to understanding the new contract.

Recent research by Sharpe (as part of a doctoral thesis), uncovered a number of reasons to suggest that employability is a redundant concept for all but minority of the workforce. The study, which involved over four hundred participants from forty different organisations, revealed that:

- Many employees, especially those with long service records, remain attached to the idea of a job for life. It is difficult for them to accept that employability means increasing their employment opportunities and thus their job security with a number of organisations. Protecting their current job is the motivation to work harder.
- Individual and experiential factors influence the ways in which employees perceive their work and the significance they attach to it. Not all employees have high career aspirations in the sense that employability suggests.
- Many organisations, particularly SME's and those in declining industries do not have the resources to improve their employees' career opportunities.
- As organisations continue to outsource some of their lower grade jobs, more and more employees are denied the opportunity to pursue a career and they remain at the bottom of the career ladder.
- Some employees perceive their organisation as a resource to fund their training and development with the intention of moving on to another organisation once their training is complete.
- As a result of which, some organisations are not prepared to accept the costs of employability; if employees moved to other organisations within a certain timescale, they are charged the costs of their training and development.

From this and previous research evidence, it would appear that employability

opportunities are: not available to many employees; they are not welcomed; or they might be perceived as an opportunity to 'get even' with organisations. This suggests that, reward incentives developed within HRM (in terms of employee development) will have no motivational value to employees seeking long term job security. And, the value might be only short term if the highly qualified, more ambitious employees leave the organisation before a return is seen on the investment. It is therefore argued that employability has become a reality for only the minority. When the optimists suggest that it underpins the 'new' psychological contract, they are speaking about a more privileged, highly educated and more ambitious group.

Complexity, diversity and fragility of the psychological contract

Further evidence from Sharpe challenges whether in practice, the content or the state of the psychological contract can be managed in the way that some researchers suggest.

Its idiosyncratic nature was first acknowledged in some of the early writings and researchers (Rousseau, 1996 for example) have continued to discuss it in terms of it being a subjective phenomenon. Most authors agree that an employee's psychological contract develops and evolves through their interactions and experiences with their current organisation. As such, each individual's psychological contract is unique. Nevertheless, many researchers continue seeking ways of measuring its content and state and some discuss the ways in which it is changing as though these changes are consistent across the workforce.

Whilst it was clear that the majority of participants in the study was less likely to perceive certain elements, such as job security and promotion prospects as part of their psychological contract, it was less clear what its elements and state currently are. It was demonstrated how a host of individual, organisational, experiential and external influences have differing effects on the ways in which participants:

- Perceived their psychological contract;
- Organisation change was perceived to affect it
- They responded to psychological contract changes.

It was also shown how their perceptions might alter significantly within a relatively short time.

First, evidence revealed how different types of industries have been affected by external changes in different ways. Some organisations in the manufacturing and engineering industries have been affected by factors such as economic downturns, a slow down in demand for goods or services and overseas competition. Pressures to compete have frequently resulted in a reduction in the workforce, sometimes repeatedly. This has had a somewhat dramatic effect on what might be regarded as the typical 'old' psychological contract. Many participants from these types of organisations found insecurity and uncertainty difficult to accept and organisation change was perceived as representing further threats.

Conversely, as a result of rapid technological advances, organisations in the IT, Dotcom and telecommunications industries, continued to grow and demand for labour was (until as recently as the middle of 2001), greater than the supply. Many participants from these organisations expected to make several career moves. They were confident about job security and their career prospects, either with their current organisation or a different one. Their psychological contracts and the ways

in which they perceived organisation change were significantly different from employees in declining manufacturing and engineering organisations.

Nevertheless, growth industries today, may find themselves in a declining one tomorrow. The predicted trading on the Internet has not yet materialised, advances in mobile telephone technology have peaked for the foreseeable future and travel and airline industries, already suffering due to threats of global recession, were affected overnight by the events of September 11th 2001. Thus, external pressures can affect different types of industries in different ways and within a relatively short space of time, with subsequent effects on the psychological contract.

Second, the ways in which organisations respond to external pressures inevitably impacts on the workforce and their perception of their psychological contract. For example, demands to increase flexibility have resulted in organisation changes such as outsourcing, contracting out and the introduction of annualised hours. An increasing number of employees, from the unskilled to those with specialist skills, are now employed on short term, temporary or flexible contracts. The number of part time workers has also increased significantly. It is suggested that changes in the psychological contracts of these employees might be far greater than the changes experienced by those who have retained a full time permanent contract.

Third, it was shown that the career expectations of younger employees entering the job market differ from those that have been in employment for many years. Younger employees had little or no experience of the 'old' psychological contract. They did not attach the same importance to job security as some of their older, more experienced colleagues, especially those with long service records. Therefore, there was no sense of loss in the decline of job security. Generally, organisation change, especially that which involved job losses, did not affect their psychological contracts in the same way that it affected long serving employees. The latter found changes to the psychological contract more difficult to accept, with subsequent detrimental effects on employee and organisation outcome measures.

Fourth, it was shown that organisation factors such as management style and organisation culture can influence employees' perception of their psychological contract, the ways in which change is perceived to affect it and their behavioural and attitudinal responses to such changes.

Finally, and consistent with claims made by Rousseau (1996) it was found that individual differences, such as personal predisposition and previous experience appeared to have an influence on the importance individuals attached to work, their perception of the psychological contract, how it was perceived to be affected by organisation change and their subsequent behavioural and attitudinal responses.

The main point is that, whilst we might have been able to describe the psychological contract in the past, when organisations remained relatively stable and unchanged for longer periods, in today's rapidly changing environment we are no longer able to do so. Furthermore, the research evidence indicates that the psychological contract is more complex and fragile than some researchers would suggest and that a host of individual, experiential, organisational and external factors influence employees' perception of the psychological contract and their experience of change.

It is not suggested that the workforce was ever an homogenous group, but it would seem that because of the influence of these factors, employees' career ambitions, their expectations, needs and concerns are becoming more distinctive and more

difficult to manage collectively. It is argued that the psychological contract of the 21st century is more diverse than it has ever been.

These types of findings question whether such a complex, idiosyncratic phenomenon, in a constant state of flux, can be measured beyond the time at which data are gathered. They also suggest that researchers making claims about its content, state or nature, should confine their findings to their research sample and refrain from generalising to the working population.

From a practical managerial perspective, these findings challenge whether the *content* of the psychological contract can be managed beyond the level of the individual employee. It is questionable whether organisations have the resources to fulfil that objective and it is suggested that they must reconsider any change management problems and the effects of organisation change on the psychological contract.

Conceptualised differently, the psychological contract is worth taking seriously

The previous two sections of this paper appear to suggest that in both research and practice the psychological contract is of limited value. However, it is argued that it is a concept that is worth taking seriously, from both a theoretical and a practical managerial perspective, if it is thought of in terms of the foundations underpinning it. For example, the psychological contract was described earlier as a mental model or schema that develops through an individual's interactions and experiences. In a relatively stable work environment, employees develop an understanding of what they can expect from the organisation and what is expected of them in return. Over time, they come to rely on schemas to interpret and predict the complexities of organisation life. The psychological contract also gives them a feeling that they have a degree of influence and control over their employment and how their work is managed. This cognitive conceptualisation illustrates the function it serves in reducing uncertainty and providing a greater sense of security, order, continuity and control'. Whilst predictability, security and control might be thought of in terms of job security, it encompasses more than that. It also relates to:

- Clarity of objectives;
- Knowing what to expect and what is expected in return;
- Understanding and having confidence in one's own position;
- Having influence and control over events that affect one's job;
- Feeling certain about the level authority;
- Being able to prevent negative things from affecting one's work.

Furthermore, it refers to the provision of security, predictability and control both in the relation to one's current job and the future.

It was also suggested that the psychological contract constitutes a reciprocal (although implicit) agreement between employer and employee. According to social exchange theory (Blau, 1964) participants in the relationship, will try to maintain a degree of balance between inputs and rewards, hence the strain towards reciprocity. An employee's decision to fulfil their (perceived) obligations to the organisation will be based upon the degree to which they perceive the exchange relationship between themselves and their employers as equitable. Commitment, organisation citizenship behaviours and low turnover intentions have been viewed as ways of repaying the employer for obligations created by treating employees well (Shore and Wayne, 1993; Rousseau and Parks, 1993). In other words, their way of reciprocating for the benefits received.

Thus, when the psychological contract is considered in these terms, it becomes relevant to all employees, regardless of the job they do, and it is not necessary to specify the contract's content. It also becomes clear why the concept provides a useful means of understanding employees' experience of organisation change.

For example, changes in the work environment might be inconsistent with existing schemas. As such it represents a threat to employees' means of interpreting and predicting events and their organisation world becomes less certain. This might explain why some employees perceive change as a threat, experience stress and feel insecure in their employment. According to Rousseau:

'The losses that people incur as a result of change begin to surface with the loss of tangibles such as job security and intangibles such as certainty and predictability. A loss of control and certainty typically accompany changes' (1996: 171).

Change initiatives might also demand an increase in employees' contribution to their organisation, such as working more hours, or learning to work with new technology and they may not be offered additional rewards as compensation. Folger and Skarlicki (1999) propose that employees feel threatened particularly when they see change as imposing hardship or loss. They suggest that some initial sense of inequity seems to be a logical result from having to work harder - adjusting to changing conditions - without necessarily receiving additional rewards,

Davidson (1994) described employees' responses to change where they were asked to do more for less:

'Employees resented being asked to work more intensively and across functions without any additional reward for doing so' (cited in Folger and Skarlicki, 1999: 4).

Employees who perceive the organisation as not fulfilling its obligations might respond to the lack of balance by seeking an alternative means of restoring balance; they might reduce their obligations by withdrawing effort (Shore and Tetrick, 1994; Robinson et al, 1994). Blau (1964) argues that perceptions of a lack of balance might lead to negative consequences: disappointment and distrust may develop. According to Anderson and Schalk (1998):

'At the core of the change may be the re-evaluation downwards by the employee of what they owe the organisation relative to what it owes them' (1998: 644)

In summary, it is suggested that when the psychological contract is considered in terms of its underpinnings, its theoretical and practical value is demonstrated. From a research perspective it provides a means of understanding what the experience of change is really like for employees, an issue that is frequently overlooked by researchers. It illustrates why they might react to change initiatives in certain ways and why they might try to resist it if their organisation world becomes less certain and the exchange between their inputs and the rewards they receive is inequitable. From a practical managerial perspective, it highlights the issues that are of concern to employees and those which management needs to address. The following section describes how perceptions of organisation justice (or fairness) provide an opportunity to accept and adjust to organisation change and its effects on the psychological contract.

Organisation justice and psychological contract changes

Organisational justice (or fairness) is the term used to describe the role of fairness as it directly relates to the workplace (Folger, 1993; Greenberg, 1990a; Moorman, 1991). It has been defined as:

'The ways in which employees determine if they have been treated fairly in their jobs and the ways in which those determinations influence other work related variables' (Moorman, 1991:845).

Research shows that if employees feel that they have been fairly treated, they will be more likely to hold positive attitudes about their work, the outcomes and their supervisors. Research by Adams (1965) and more recently by Greenberg (1988a) has shown that employee job performance may increase or decrease in relation to perceptions of justice.

Previous research has identified three different types of organisational justice: distributive, procedural and interactional. Procedural and interactional justice are more relevant to organisation change and psychological contract studies than distributive justice.

Procedural justice relates to perceived fairness of the policies and procedures used as the basis for making decisions about outcome distributions (Greenberg 1990b; Tyler and Bies, 1990). Satisfaction with the organisation (as shown by commitment, for example) is related to perceptions of procedural justice (Folger and Skarlicki, 1999). Studies have shown (Blancero et al, 1976) that perceptions of a fair process can mediate perceptions of a low or unfair outcome. If people are satisfied with the outcome, they ignore the process, but when faced with a perceived unfair or an unfavourable outcome, they tend to evaluate the process.

Leventhal et al, (1980) identified six rules to identify fairness procedures. They suggest that

'A company's procedures are fair to the degree that the decision-making processes demonstrate: consistency, bias suppression, accuracy, correctability, representativeness, and ethicality' (1980).

More recently, a social dimension has been added to supplement these structural dimensions: fair procedures also require the use of adequate explanations of procedures.

Procedural justice research has been applied directly to studies of organisational change. Researchers have suggested that resistance to change may be due partly to the perceived neglect of procedural justice: not granting employees involvement in determining decisions about change (Brockner, 1988; Greenberg, 1987; Wiesenfeld and Martin, 1995;). Cropanzo and Folger (1989) found that when the procedures were perceived as unfair then feelings of resentment were likely, which became manifested in resistance to change. Evidence suggests that informative and sensitive explanations of procedures tend to minimise negative reactions to adverse outcomes such as layoffs and pay cuts (Greenberg, 1990). Furthermore, perceptions of fairness are enhanced by the use of the procedures that give employees a voice in the decision-making process (Folger and Greenberg, 1985). In summary, individuals are more likely to accept change, even when the outcome is unfavourable, if they perceive the procedures as fair (Cobb et al, 1995).

Interactional justice is concerned with perceptions of the quality of treatment during the enactment of organisational procedures (Bies, 1986). It is concerned

with social sensitivity, such as treating employees with dignity and respect, listening to their concerns, providing adequate explanation for decisions and demonstrating empathy. Providing explanations to employees, in an honest but sensitive manner has been shown to contribute to their perceptions of interactional justice because those who are affected by change feel that they have been treated with dignity and respect (Greenberg, 1990). Folger and Skarlicki claim that:

'As organisations continue to change, and as they are unable to offer the traditional rewards, people will judge the changes according to implications for human dignity' (1999: 9)

Findings from these types of studies indicate that justice research has much to offer academics in understanding the complex change process and managers who are undertaking the challenge of implementing it. Fairness principles provide the opportunity to mitigate some of the adverse consequences of change (Cobb et al, 1995; Folger and Skarlicki, 1998). Nevertheless, whilst researchers have shown a relationship between perceptions of justice and outcome measures, such as commitment, organisational citizenship behaviour and intention to remain (Folger and Greenberg, 1995; Greenberg, 1990b:), rarely is it within the context of organisation change and its effects on the psychological contract.

Recent investigations by the author have shown that perceptions of fairness affect the extent to which employees accept and adjust to psychological contract changes. The findings suggest that fairness perceptions are most likely to be influenced by issues associated with communication and involvement, such as:

- Receipt of perceived honest information;
- Receipt of regular information about the objectives of change and its progress;
- Opportunities to express views and concerns;
- Employee involvement in decision making;
- Taking employees' suggestions seriously and acting upon them;

For over fifty years, academics and practitioners have proposed 'participative management' as a vehicle for change implementation. Researchers (Coch and French, 1948; Vroom, 1964; Kotter and Schlesinger, 1979; Nadler, 1993) claim that participation facilitates the communication of information about what the change will be and why it has come about, which tends to reduce resistance to change. Management texts argue in favour of employee inclusion in the planning and execution of organisation change. Both practitioners and academics speak about employee ownership of change as a means of increasing their motivation and commitment to make the change work. This paper suggests other reasons why effective communication and employee involvement are essential.

During complex change, an individual's need for information increases to reduce the uncertainties that it might bring. A conscious process of sensemaking occurs to develop explanations of why predicted outcomes no longer occur and to understand the terms of the new psychological contract. Research evidence has shown that if individuals understood the rationale for the change, they perceived the process as fair and they were satisfied with the consequences, they accepted and adjusted to changes in the psychological contract more readily. Fair treatment through communication and involvement therefore, represent a mechanism for developing new schemas that are more consistent with the new environment. It provides employees the opportunity to develop a new way of interpreting and making sense of their organisation world. It removes the uncertainty and insecurity. It provides a degree of security, predictability and control because employees know what to expect in their organisation world, even if it has changed. Furthermore, if the

reasons for change were clearly understood and employees were treated with fairness and respect, they were more willing to increase their contribution to the organisation in terms of commitment, innovation and flexibility.

In summary, addressing fairness issues by providing information, involving employees in the change process and treating them with respect, represents a mechanism for sensemaking or understanding change and an opportunity to adjust to changes in the psychological contract. However, empirical findings indicate that in many organisations issues of fairness are not adequately addressed.

The way forward

Research evidence appears to suggest that organisation change is generally a poorly managed process with potential negative implications for employees and organisations. A senior manager attending a recent change management event, hosted by the UK Work Organisation Network (UKWON) is quoted as saying: 'we claim that we don't have time to consider people or to manage change effectively, but then we have to find twice as much time to put things right'. It is argued that if change management problems are not addressed there might be implications for future changes and the relationship between managers and employees. The final section of this paper discusses the ways in which managers might address some of their change problems and thus ensure that it is managed more effectively. It argues for a more analytical approach to change management through educating managers on the role of the psychological contract and fairness principles. It concludes with a recommendation that in the longer term, management needs to focus on developing a stronger more robust psychological contract between organisations and employees.

The intention is not to represent the psychological contract of ten to fifteen years ago as either ideal or typical. Some would argue, justifiably, that there has always been tension between management and employees and psychological contracts have always been diverse. However, it is suggested that in the past, when organisations remained relatively stable for longer periods, the level of security, predictability and control was higher and employees were more certain about what they could expect to receive and what they were expected to contribute. Now there is less certainty and psychological contracts are not only changing, they are becoming *more* diverse. Some employees appear to accept these changes more readily than others. As the following discussion illustrates, managers are beginning to recognise some of the challenges they face and they are anxious to find ways to address them.

Recognising employees' concerns: change in management dialogue

Anecdotal evidence from change management events (February 2002) hosted by UKWON, suggests that the dialogue between managers is beginning to change. Managers attending these conferences expressed their concerns about employee dissatisfaction and lack of commitment more frequently than they have done in the past. They recognise the diversity of their workforce and that different strategies are needed to address different sets of problems. On the one hand, they were concerned about lack of job satisfaction for employees in routine and repetitive jobs, some of which have been brought about through new technology. They claimed that many employees worked in isolation and were unaware of their contribution to the complete work processes. As most of these organisations had downsized over recent years, they were aware that some employees in these low skilled positions worried about job security. Managers suggested that these factors

had increased absenteeism and affected the quality of work. On the other hand, managers were equally concerned about problems of satisfying the career needs of what they termed the 'high fliers'. They faced problems of training and developing them and then losing them to the competition.

An additional problem was also identified. Whilst job losses are still currently announced on a large scale, this trend is predicted to change. Managers claimed that by 2006 there would be more employees leaving the job market than entering it. Furthermore the number of graduates, the predicted high achievers and critical to success in terms of creativity and innovation, will fall. As such, they anticipate problems not only in retaining, but also in staying ahead of the competition in recruiting the necessary skills and competences. Thus, it would seem that if employees' full potential is to be harnessed and organisations are to recruit and retain the necessary skills, management has to develop different strategies for different groups of employees.

At each of these conferences, quality of working life issues dominated the agendas. Managers spoke about the need to increase job satisfaction and commitment through creating a more flexible work environment. They discussed the benefits of involvement, effective communication and of educating employees about the business and its objectives. In other words, the issues that this paper and numerous research publications have identified as key to success.

The essence of the argument is that, managers are discussing how the agenda needs to switch its emphasis from creating employee flexibility to creating organisation flexibility to accommodate *all* employees' needs. The difficulty is in achieving this; experience shows that these issues are frequently overlooked.

Managing specific change initiatives

As suggested earlier, the issues most likely to enhance employees' perception of organisation change are consistent with 'conventional wisdom' in relation to participative change management, first publicized in the work of Coch and French (1948). Practitioners and academics have since espoused the importance of communication and involvement. However, countless studies have shown that there appears to be a low correlation between knowledge (of how it should done) and managerial actions.

One of the underlying messages from practitioners and academics is (and always has been) consistently clear; there are no short term solutions to managing change. Addressing what are frequently termed the 'people issues' is paramount to its success. This paper does not profess to have any new solutions or prescriptions for change. However, its contribution to management practice is in suggesting ways of reflecting upon and analysing organisation change from an employee's as well as from an organisational perspective. The ability to do so might encourage management to give employees' concerns a higher priority on the change agenda.

The findings from this author's research suggest that one of the problems with organisation change is that everyone involved tends to view it only in terms of its effects on their own position. Everyone from senior management to employees on the factory floor may not have the detailed awareness of the problems facing other organisation members. Thus, it would seem that management decisions and actions can be taken without consideration of their implications for employees. And, employees may respond to change in ways that inhibit organisation success with further negative consequences for themselves.

It is suggested that management should adopt the same approach to analysing what they term the 'people issues' as they do to analysing their business. In this sense, the change agent or manager rejects the idea of a recipe for change. They adopt a role similar to that of an academic researcher, constantly analysing their actions (or omissions) and the implications of such actions, and adapting their change management strategy accordingly. However, two barriers were identified, which currently prevent managers from adopting this type of approach to change management. First, due to the pressures they face, they appear to consider that time and resources are more urgently needed elsewhere. The advice to management is that, they might reflect on previous change initiatives and consider the costs of the consequences for employees and organisation success. But, this leads us to the second issue; evidence has shown that many managers lack the types of skills that would be necessary to carry out these analytical exercises. It is suggested that this is where the focus of training for *all* managers (including the most senior) or change agents should be directed.

Whilst it has been argued that the psychological contract cannot easily be managed, it is also argued that it is an important factor in change management. Managers do not generally consider the effects of change in terms of loss of security and control or changes in the degree of balance between inputs and rewards. It is suggested that educating managers about the role of the psychological contract in relation to organisation change, especially its effects on security, predictability and control, would be beneficial to employees and organisation success. In addition, research (Kilbourne et al 1997; Skarlicki and Latham, 1996) has shown that training management in organisation justice (fairness) principles enables them to recognise the value of employee involvement and communication. It can significantly increase employees' satisfaction with change with subsequent effects on their performance and commitment. It is suggested that change management texts and management training courses should begin to discuss issues associated with fairness and the psychological contract.

If an analytical approach to change became part of the organisation's culture, there would be benefits on a number of different levels. If management at all levels understood more about the potential effects of organisation change in psychological contract terms, it might provide them with an insight into why some employees feel threatened by change, why they try to resist it and why they behave in certain ways. It might help recognise that an individual's means of understanding and interpreting their organisation world does not change simply because they are told that their work environment is going to change. To do so is like physically transporting someone from one location to another without allowing them the experience of the journey.

Managers might also understand better the relationship between organisation change and stress. Two factors most likely to cause stress are excessive demands with which individuals perceive they are unable to cope and a perception of not having any control over events or situations that affect them.

If senior managers can understand organisation change from this perspective, they might be more supportive of their management team and remove some of the threats of uncertainty. Demands on middle and junior managers during change implementation are high. They are expected to manage change and provide support for employees when they are equally concerned about its effects on their own positions. They often receive little or no support during the process. A manager who has the support of his superiors will exhibit more confidence in the tasks he performs and this might subsequently impact positively on employees' attitudes and behaviour.

Gaining an insight into why some individuals take a certain course of action, places people in a better position to show empathy and listen to their concerns. Furthermore, in understanding the reactions of others, we often learn something about ourselves. Therefore, given these analytical skills managers might also understand their own reactions to change and why they behave in certain ways. As research findings illustrated, managers are also in a vulnerable position.

In summary, an understanding of the role of the psychological contract and the significance of fairness principles, provides the opportunity for organisations to develop a reflective, analytical tool for evaluating the most appropriate options for managing organisation change.

Attaining the longer term objectives through partnership

Change appears to be an inevitable feature of organisation life and evidence suggests that its pace will continue into the foreseeable future. Therefore, in addition to managing specific change initiatives more effectively, management needs to focus on the future and address some of the problems that currently exist in the psychological contract. The way forward is through developing a more sustainable relationship between management and employees.

It is argued that the psychological contract should not be thought of as part of an HRM toolkit to increase performance and commitment, which is a concern amongst some academics. That being said, management can take measures to improve and sustain the psychological contract in a qualitative sense. It should be thought of in terms of managing the foundations upon which it is based, such as reciprocity, security, predictability and control.

On reflection of the challenges facing organisations, it is suggested that a partnership approach might represent a means of strengthening the psychological contract between organisations and employees.

In its traditional sense, partnership refers to an elected group of trade union and management representatives. Its purpose is to forge collaborative working relationship between these two groups and avoid some of the conflicts that have characterised employment relations in the past. It is proposed that the decline of trade unions might be a contributory factor to some of the current difficulties within the employment relationship and the dissatisfaction with the psychological contract. Whilst there is a history of adversarial and antagonistic relationships between management and trade unions, the latter played a fundamental role in representing employees' needs. Employees in non-union organisations no longer have the voice and representation they once had and in many unionised organisations, trade unions are not as strong as they once were. Without this representation, it is argued that organisations are able to introduce changes to working practices without any formal resistance from the workforce. However, as evidence has shown, this does not gain their support and commitment.

Partnership in the context proposed here, includes representation from *all* levels of the organisation; it is not confined to organisations with a trade union presence. Furthermore, its objective is not to address only industrial relations issues. In successful organisations, partnership is an intrinsic part of the organisation's culture. Recent publications (Guest and Pecci, 2001) and reports from the Industrial Society, DTI, Involvement and Participation Association (IPA), UKWON and the Irish Productivity Centre (IPC), suggest that partnership achieved a degree of success. Not only did relationships between management and employees

improve significantly, partnership has proved to be an effective vehicle through which to implement organisation change.

The meaning and objectives of partnership differ from organisation to organisation. However, frequently cited reasons for entering partnership include:

- Increased employee involvement and participation;
- Involvement of different stakeholder groups in decision making;
- More effective communication;
- Employee education on business issues;
- Improved job satisfaction
- Increased commitment
- More training and development opportunities
- Employment security

It could be argued that, these objectives are no different to some of the current HRM objectives. Is it therefore merely a repackaging of issues on the current HRM agenda? And, will it turn out to be empty rhetoric in much the same way as the psychological contract did for those who believed they could manage its content? The answer to the latter question is, potentially yes, it could if organisations are not seriously committed to its success. As the following discussion illustrates, it takes a degree of effort from all organisation members. As regards its objectives, it is argued that there is a distinct difference between a partnership approach and existing HR strategies. Generally, at present, employees have very little influence over organisation change. They are usually unaware of changes to working practices until management has made the decisions, after which, they are informed, with differing degrees of success. With a partnership approach, the different stakeholder groups are represented and change initiatives and methods of implementation are put on the agenda, discussed and decided by members of the partnership group. This allows for the diversity of employees' needs to be considered.

For example, evaluation reports have shown that organisations tended to establish a partnership group of elected members representing all of the different stakeholders. Based on the recommendations from the entire workforce, these groups established their own modus operandi. They meet on a regular basis to establish and address the challenges facing the organisation and its employees. Employees are encouraged to make suggestions and express their concerns to representatives of the group, who in turn are expected to provide regular feedback. When specific changes are introduced, additional working groups are established to gather information to decide the best approach. These organisations are conducting their own research in much the same way as an academic researcher. This marks a move towards a more diagnostic or analytical approach to change, as recommended above. The role of HR managers is to act as facilitators to the group, which represents a switch in the HR function. This is also the expected role of external consultants brought in to deal with specific issues with which organisations do not have the necessary expertise.

In this sense, partnership does not have to be confined to the larger corporations with resources to develop sophisticated processes and procedures for change management. Furthermore, with encouragement and training for employees unaccustomed to direct discussions with management, it provides the opportunity for representation from all employee groups.

Partnership evaluation reports and publications reveal that the key success factors are consistent with the recommendations of many studies. Partnership provides a means of facilitating employee involvement. They are able to express their views and to receive regular feedback about the organisation's performance, its intentions

and how any change initiatives are developing. Employees claim to have learned more about the business and they are more aware of problems facing the organisation. In this sense, they can appreciate why certain decisions are taken and they are more willing to accept them. In other words, partnership provides the opportunity to develop new ways of interpreting their organisation world and thus reducing some of the uncertainty that appears to be a characteristic of organisation change. It represents a means mechanism for improving the psychological contract, which it is argued, is one of the key challenges facing management. There are also indications that it improves employees' perceptions of fairness; they claimed that their concerns are more likely to be taken into consideration. From a managerial perspective, some managers understand more about the implications of their actions and they acknowledge the need for and the benefits of employee involvement.

It is not the intention here to portray partnership as a panacea for all organisational problems. Organisations have not found it an easy process to engage in. Both management and employees have to adopt a different role and develop a different type of relationship with each other. It represents an entirely different means of communicating and everyone in the organisation has to be committed to its success for it to achieve its objectives. Critical to the success of a partnership that becomes embedded in the organisation's culture, is senior management's commitment. They must accept that each member of the group is of equal status and that everyone has input. Some managers find it difficult to accept that in this role, they are not the 'boss'. From the employees' perspective, there are likely to be initial problems of communicating with management and accepting that partnership is not a vehicle for discussing pay issues and airing personal grievances. Its main objective is to develop and sustain a better relationship between themselves and management. It is a means of improving both organisation success and employee satisfaction.

Despite its problems, it is argued that partnership represents a way forward for establishing a better relationship and for restoring the psychological contract to one based on mutual trust, commitment and reciprocity. Empirical evidence has shown that this type of psychological contract is beneficial to both organisations and employees. Furthermore, if the foundations underpinning it are robust, it represents a means of overcoming some of the difficulties associated with organisation change.

This paper was written during times of what some managers described as uncertainty and instability. There were recent threats of a (global) recession and it is predicted that the full implications of September 11th 2001, have not yet been fully realised. Thousands of job losses have already been announced, but many more are expected. The unemployment figures have risen for the first time in a number of years and in the short term, they are forecast to rise further still. Whilst organisation must respond to the immediate problems these pressures (some, simply to remain in business), they must also remain focused on the longer term future. Economic and employment trends are cyclical; it is predicted that there will be a shortage of labour after 2006. The relationship between organisations and employees now, will determine whether they retain their best employees when the economy and job market are more stable or whether they are lost to the competition.

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