

DEVELOPING THE NEW PSYCHOLOGICAL CONTRACT



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The Postgraduate Certificate in Collaborative Transformation (formerly shared services) was very helpful in my work in Kent & Essex Police Business Services.

For my academic review, in module 2, I chose to focus on the psychological contract aspect of the employee/organisation relationship with a view to understanding and considering any particular emphasis on the relevance of the psychological contract in a shared services environment.

I was seeking an answer to the question of whether there is a difference and/or there are additional considerations for managers, with regard to the psychological contract during periods of change, particularly when implementing a shared services project.

What is the psychological contract?

The psychological contract as an exchange process between workers and organisations is described as “*the spoken and tacit beliefs, understandings and obligations between the employer and employee, often setting out the dynamics of the relationship itself and the manner in which it operates*”¹.

In considering collaboration, the psychological contract is put perhaps more simply as the “*organisational expectations and what employees will receive in return for meeting them*”² which also underlines the concept of an exchange between the organisation and its staff.

This implies a two-way relationship which, like any relationship, requires mutual trust and a perception of fairness in order to be successful. The authors go on to comment on the complexity of the psychological contract, between staff and immediate managers as well as with the organisation as whole and within it the importance of clarity about expectations and reward.

¹ (Rousseau, 1996)

² (Huxham & Vangen, 2005)

They conclude that views are formed based on the interactions between the staff and the manager and/or the organisation and those views will in turn determine the strength or otherwise of the psychological contract and (perhaps during a period of change, for example) the conditions in which it will be perceived to have been broken.

Why is the psychological contract important?

The changing nature of the public sector workplace is bringing together staff with different employers into the same workspace, for example cross organization project teams, collaboration, joint ventures and outsourcing.

There is a blurring of organizational boundaries with regard to differences in formal contracts (terms and conditions) and employment relationships³, including performance and the line management relationship.

This has implications for how to manage employees who may perceive their responsibilities and hence their commitment to align with one of a number of organisations, for example either their direct employer or with individuals or teams who may be employed by other organisations.

These perceptions affect and require a different approach to employee relations and employment management than more traditional methods.

One effect of changing organisations and the impact on psychological contract, is that there are no longer jobs for life⁴. There is instead a move to an environment of multiple careers over shorter time frames and hence reduced loyalty to one organisation. This is particularly prevalent in public sector and is emerging clearly within the police services⁵.

³ (Rubery et al, 2002)

⁴ (Carnall, 2007)

⁵ (White & Robinson, 2014)

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This is further reflected from the perspective of managers and professional staff employability and careers, in the context of shared services and the factors affecting managers and professionals in these new style organisations⁶.

The recognition is that, traditional public sector career progression through a single organisation is becoming a thing of the past. Recurring adjustment to the variety of different organisations that individuals are likely be employed in, requires personal flexibility and the ability to manage employment insecurity.

Therefore, the importance of the role of positive leadership is underlined with regard to the establishment of organisational cultures and communication channels as part of a stabilization process for employees, for the time they are with the organisation.

In collaborative working, it calls for examining leadership, change management and culture in terms of the transitory consequences for individuals and impact they will then have on the success (or failure) of new mergers and amalgamations⁷. This is particularly relevant as such change is often a catalyst for shared services.

Why do you need to create a positive psychological contract?

There is therefore a need for leaders to create, or re-create a positive psychological contract and safe working environment and it is suggested that this includes involving staff in the establishment and sharing of new organisational values and beliefs, linked to the vision and goals of the new organisation.

⁶ (Rothwell et al, 2011)

⁷ (Kavanagh et al, 2006)

This is set in the context of proposed mergers and is relevant within collaborative arrangements; a link is again made between the fear of change and the impact on the psychological contract, which is perceived to have been broken due to the potential change in the terms of the exchange.

The academic studies provide examples how the potential to lose one's job as a result of a merger, or be subject of some form of enforced change as a result of it, has an effect on loyalty to the "old" organisation and the perception of the "new" organisation in terms of fairness and the decisions of managers, resulting in mistrust.

This is further complicated by new relationships with the new organisational "identity" and between existing, assimilated and new employees and suggests that most staff initially view the merger negatively.

It implies that managers and staff are therefore likely to be less loyal to organisations, in the same way that they perceive organisations are less loyal to them and indeed staff at all levels⁸.

This emphasizes the importance of constant engagement and communications by leaders and managers, and engagement and working with employee teams to design the new organisation and work processes.

This suggests an increased need to create and re-create employee and stakeholder relationships and a shared sense of purpose (vision and goals) by leadership at all levels. A new, positive, psychological contract must be purposefully structured.

The psychological contract also plays a role within internal service relationships, ie between teams and departments within the same organisation.

⁸ (Carnall, 2007)

These factors in turn impact upon how willing (or not) individual employees may be to work together, to complete a process or task as part of a project or service line. This can have a direct effect on overall service delivery and performance and may give rise to issues of conflict.

As well as the transactions themselves between such organisational units, there are often unspoken expectations based on a whole range of factors including experience of past encounters. These affect, for example, levels of trust, perceptions of competence and the nature and tone of interpersonal exchanges.

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A checklist for developing the new psychological contract

Based on my academic review and personal experience, I would suggest the following will contribute to the development of a new psychological contract.

Firstly, create opportunities for more of a team-based approach during the implementation of projects, especially on activities that will contribute to creating the new culture, organisational identity and service provision. This will include policy and working practices design.

Place a much greater emphasis on relationship building with staff (i.e. staff engagement and effective communication) as a way to achieve involvement in the definition of new policies and procedures and hence the desired process improvements, rather than a “top down” approach led by management. In other words, encourage a participative implementation, “doing it with the staff” rather than “doing it to them”.

This approach could also be applied to a range of internal stakeholder relationships (eg inter-department, employee and customer relations) in a managed way, to influence positive outcomes in terms of the psychological contract and hence performance across service lines that require inputs from other departments.

Try to achieve greater standardisation in the use of IT, as a result of the enhanced involvement of staff as stakeholders in process reviews and optimisation on an ongoing basis, with greater empowerment and self-management opportunities with the new service teams.

There are also some communication lessons to be learned. For example the need for more two-way dialogue as you develop a new customer service vision. Establish face to face workshops and information exchanges with staff and customers to generate positive energy for the change, and remove any recent experience of negative fear of change.

This is particularly important at the early stage (whilst responding to the need to change due to economic factors) in shaping the vision and goals (how to change to meet the challenge) and implementing the new services (design and delivery).

Take care to ensure that, whilst a significant driver for the impending implementation may be cost reduction, the focus in communications isn't too heavily on savings targets. This could be balanced with a strong focus on improved services, job enrichment through greater empowerment and engagement in decision making.

Highlighting opportunities for personal development within the new organisational structure will have a positive impact if included in the communications strategy.

On the next page I have turned these suggestions into the beginning of a checklist for developing a new psychological contract, to inspire your leadership work. I hope it proves helpful.

An example checklist for developing the new psychological contract

Actions for developing the new psychological contract	How will we achieve this?
Create opportunities for more of a team-based approach during the implementation of projects, especially on activities that will contribute to creating the new culture, organisational identity and service provision.	
Place a much greater emphasis on staff engagement and effective communication as a way to achieve involvement in the definition of new policies and procedures and the desired process improvements	
This approach could also be applied to a range of internal stakeholder relationships (eg inter-department, employee and customer relations) in a managed way, to influence positive outcomes in terms of the psychological contract and hence performance across service lines that require inputs from other departments.	
Try to achieve greater standardisation in the use of IT, through involvement of staff as stakeholders in process reviews and optimisation, on an ongoing basis. Offer greater empowerment and self-management opportunities for the new teams.	
Offer more two-way dialogue as you develop a new customer service vision. For example, face to face workshops and information exchanges with staff and customers to generate positive energy for the change.	
Educate and engage staff and stakeholders in: the reasons for change (eg economic factors); in shaping the vision and goals (how to change to meet the challenge); and implementing the new services (design and delivery).	
Place a strong focus on improved services, job enrichment through greater empowerment and engagement in decision making.	
Highlight opportunities for personal development within the new organisational structure include them in the communications strategy.	

These are David's suggestions to inspire you. Work with your leadership team to add or amend them.