HUMAN FACTORS IN ORGANISATIONAL RESILIENCE – IMPLICATIONS OF BREAKING THE PSYCHOLOGICAL CONTRACT

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ABSTRACT: The psychological contract, or the unwritten agreement between employees and employers, is an important factor in determining the attitudes and associated behaviours of people. This paper explores the impacts that the psychological contract has on employees’ attitudes prior to and during an organisational crisis and upon their willingness to ‘go the extra mile’ to assist organisational recovery. It highlights factors that risk and continuity management should consider in this area and recommends that the psychological contracts within the organisation should be mapped and the impacts of any changes which could affect attitudes and behaviours related to resilience should be understood.

Introduction

Employees and employers have established and codified relationships defined within such documents as terms of employment, contracts and organisational HR policies. Such overt documents represent tangible ‘contracts’ but importantly there is an intangible contract that represents the mutual expectations held by both employer and employee as to how each other should and must behave in their relationship. This is known as the psychological contract which is underpinned by the concept of mutuality and may be defined as the:

“...unwritten set of expectations operating at all times between every member of an organisation and the various managers and others in that organisation.”
(Makin et al. 1996)

Often it is the perception of unilateral breaches of the psychological contract by the employer, such as large-scale redundancies or reduced working hours, that prompt news headlines and result in adverse publicity. The state of the psychological contract is a gauge of the trust held by employees and of their belief in their employer. It reflects the degree to which they feel they are being treated with fairness and respect (Guest and Conway, 1997) and is therefore a critical consideration in organisational resilience. The psychological contract is multi-faceted, hinging as it does on more than one single issue. The implications of an employer’s failure to live up to the psychological contract in one area will ripple into and affect other areas, breeding cynicism, de-motivating people (Oreg, 2006) and negatively impacting organisational resilience. Given the recent spate of unexpected change and shock encountered by many employees, brought about by the credit crunch and recession, the state of the psychological contract should be of real interest to those concerned with resilience. Witness, for example, the strike action that resulted in the UK not because employment contracts were breached but because people felt that they were disadvantaged when compared to foreign workers (BBC News, 2009). When the psychological contract is broken there are real implications for
resilience at the individual and organisational levels. There are also clear implications for leadership within the context of crisis. This paper explores both of these issues.

The model of the psychological contract

Interest in the psychological contract has grown in the last few decades. Over this time many organisations, perceived previously to be providers of stability and job security, have been subject to an ever-changing economic, political, technical and social macro-environment (Simms, 1994). This environmental pressure, exasperated by the current recession, has been felt at the micro-environmental, or organisational, level, as firms struggle to remain competitive (Keishnan et al. 1993), often by cutting costs. Such solutions can often mean enforced redundancies or restructuring. History has not always been so. From the 1950s to the 1970s the case can be made for rather stable employment relationships, characterised by stability and permanence within the organisation. The predictable relationship between the organisation and the individual enabled the individual to have a clear idea of the organisational culture and climate and their role in it. They could see future potential and make plans accordingly. This was to the ultimate benefit of the organisation’s resilience as employees perceived their own long-term interests as intimately bound up with the long-term fortunes of the organisation (Hiltrop, 1995).

In the new era of the psychological contract, modern business practices no longer reflect the traditional perceptions and expectations of the employee. Strategic change initiatives such as downsizing, business process re-engineering, restructuring, layoffs, increased technology, right-sizing and de-layering have all served to reduce the size of the work force and remove the previously hierarchal career ladder (Bhattacharyya and Chatterje, 2005). According to Hiltrop (1995) when this happens, people experience a degree of psychological unease with regards to the relationship they hold with their employer. They recognise the obligations they have to the employer but simultaneously mistrust the likely future intentions of that employer. ‘Confronted with increased uncertainty, fewer benefits, and very often increased workloads and responsibilities, many people feel the psychological contract made between themselves and their organisation has been broken’ (Hiltrop, 1995). It is Rousseau’s contention that perceived obligations are stronger than transactional expectations and when they are violated they produce more emotional and extreme outcomes, leading to ‘resentment, anger and a reassessment of the individual’s relationship with the organisation’ (Makin et al. 1996). If, as organisations often claim, people are their best asset and fundamental to effective continuity arrangements, then breaches of the psychological contract will have counterproductive implications for organisational resilience.

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Guest and Conway (1997) categorised the consequences of breaking the psychological contract into definable behavioural and attitudinal outcomes. They suggested that any such breach would impact more significantly on attitudes than behaviours. Importantly, they also acknowledged the influence of attitude upon behaviour so allowing for two paths by which the psychological contract can determine behaviour (Guest et al. 1996). See figure one. The model provides a useful diagnostic framework for those interested in this particular component of organisational resilience. Clearly, in the face of adversity, organisations need their people to demonstrate attitudes and associated behaviours that when combined act as a cohesive and combative force. Dysfunctional attitudes and behaviours, that are manifestations of the state of a broken psychological contract and act as a destructive force pulling the organisation and individuals apart during times of crisis, are not helpful.

*Figure one: a model of the psychological contract and behaviour.*
The attitudinal consequences of the psychological contract for resilience

The area of organisational commitment should be a growing concern for modern organisations as they strive to reconcile the changing business environment with the changing expectations of employees whilst maintaining a resilient organisation. Defining commitment is however not straightforward. Meyer and Allen (1991) proposed a three-component concept reflecting affective, continuance and normative commitment:

- **Affective commitment** refers to the emotional attachment, identification with and involvement in the organisation. This implies that people with high affective commitment serve the organisation because they are loyal and are willing to exert effort or to ‘go the extra mile’ (Sheppard and Allan, 2000).

- **Continuance commitment** reflects that there is an associated cost involved in leaving, such as financial, social, effort and seniority (Lok and Crawford 2001).

- **Normative commitment** is induced from a sense of obligation or duty to stay such that those with a high normative trait feel that ‘they ought to remain with the organisation’ (Meyer and Allan, 1991).

Organisations seek and espouse normative and affective commitment, in a bid to enhance organisational performance and build resilience. Actions, such as making people redundant, do not match the expressed resilience ethos and serve only to engender continuance commitment, or the commitment of fear. Such commitment, it is suggested, will not be enough in times of need.

According to Ivancic et al. (1997), job satisfaction reflects an individual’s attitude about their job. It ‘results from their perception of their job and the degree of … fit between the individual and the organisation’. Importantly, studies have shown that factors involved in job satisfaction such as professionalism, age, employment expectations and leadership have a role to play in forming commitment levels (Lok and Crawford 2001). Violations of the psychological contract are therefore likely to have a negative impact on commitment as well as job satisfaction. This has implications for long-term organisational resilience even if the initial crisis is survived.

The behavioural consequences of the psychological contract for resilience

Motivation theories abound and a comprehensive overview is beyond the scope of this paper. The authors’ acknowledge however the existence of two broad categorisations of motivation; intrinsic and extrinsic. The former refers to those factors that encompass instinct and drive and the latter to incentive and reinforcement (Ribeaux and Poppleton, 1978). The concept of incentives, such as promised promotion, and reinforcements that govern behaviour through a past history of reward fits neatly with the view of the psychological contract. Consequently,
violation of the psychological contract has a twofold potential to reduce motivation directly and indirectly; diminishing instinct and drive as well as reducing commitment and satisfaction.

Organisational citizenship defines the behavioural trait whereby members of an organisation ‘make voluntary contributions that go beyond the specific task performance or the psychological contract’ (Spector and Fox, 2002). This type of behaviour is crucial to the resilience of an organisation. Research carried out by Turnley and Feldman (1999) suggests that organisational citizenship ‘moderates the relationship between psychological contract violations and employee responses’. Further, they claim that such violations are also responsible for generating counterproductive work behaviours, insofar as people who perceive that their psychological contract has been violated ‘conduct acts with the potential for harm’ (Spector and Fox, 2002) and so undermine the overall resilience of the organisation.

Implications for resilience at individual and organisational levels

Violations of the psychological contract that are detrimental to organisational resilience could have different causes. Many causes may result from decisions taken in fields unrelated directly to resilience and outside of BCM or risk management. The psychological contract may be weakened as a result of the unintended consequences of decisions taken by HR, production, marketing or any other functional area. Such weaknesses lie dormant, unnoticed by managers and leaders, until the crisis situation strikes. At the very time when organisations most need people to rise to the challenge of a crisis, there exists a real risk that they will be less motivated and committed to do so.

Organisations therefore need to be able to consider their resilience and in particular how decisions taken in other areas, and not necessarily overtly related to BCM or risk management, can adversely influence the psychological contract. This requires a model that can help to identify not only the conceptual aspects, such as that of the psychological contract, but can also link practical considerations of organisational life with actual attitudes and behaviours of people both before and during a crisis. Figure two provides such a model and takes as its starting point organisational climate, mediated by cultures and sub-cultures and provides a layered approach as to how this can ultimately determine behaviour. By applying this model to an organisation it may be possible to assess the current state of the psychological contract and likely attitudes and behaviours. Organisations can then define where they wish to be in terms of the psychological contract and what attitudes and behaviours they need and expect people to display that will aid organisational resilience. In conducting such a gap analysis it will be possible to adjust the levers of the organisational climate, such as HRM policies, work/life balance and leadership, to ensure that the component parts of the psychological contract are maintained and not violated. This, in turn, will help mediate the attitudes people hold towards their organisation and ultimately the behaviours they exhibit.

One of the key issues identified by this model, and one likely to threaten the status quo of the psychological contract, is that of change. Even in good times introducing a resilience focus and ethos constitutes a change management programme. The BS 25999 BCM Lifecycle implies this through the stated need to embed BCM within the culture of an organisation. Change is often
resisted and its agents mistrusted. Consequently, change has the real potential to undermine the psychological contract, to the detriment of resilience. In a period and economic climate of rapid and unprecedented change, much of which may be perceived as threatening, the psychological contract is under unprecedented assault. Organisations that ignore the psychological contract when implementing change do so at their peril. Ultimately they are unlikely to retain the resilience required to ride out the storm.

*Figure two: a model of the causes and consequences of the psychological contract. (See the following page.)*
Implications for leadership

The context of crisis brought about by a perceived or real breach in the psychological contract is characterised by a breakdown in trust with employees feeling let down by the organisation and experiencing ambivalent emotions of anger, frustration and vulnerability. Sparrow (1996) claims that the psychological contract acts in the same way as Herzberg’s hygiene factors: a robust contract will not necessarily guarantee superior employee engagement and performance, but violation of the contract will result in lower levels of commitment, higher levels of absenteeism and attrition, and poor performance.

But what if today’s leaders can no longer guarantee the organisation’s ability to keep their side of the psychological bargain? What if, for their very survival, organisations must have the capacity for real time reconfiguration of resources? What then are the implications for people within organisations? Robinson (1996), in the light of trends towards globalisation, restructuring and downsizing, points to the inevitable move away from the traditional contract of long-term security in return for hard work, to a new paradigm whereby organisations repeatedly manage, renegotiate and alter terms of employment to fit changing circumstances. Arnold et al. (1998) describes the paradigm shift from a relational to transactional model. The rules of the game have dramatically changed but not all the players understand what has happened, or why and, perhaps more importantly, what the implications might be for their futures. The leader’s primary role in times of change, ambiguity and complexity is one of sense making. Acting with integrity, and from a position of personal resilience, leaders are charged with anticipating, interpreting and articulating the change and its implications. At no other time are leaders more under the spotlight than in times of crisis. According to Kaplan (2007) your people watch you with a microscope, noting every move you make; they learn what you really believe as opposed to what you say. Congruence between core values, beliefs and behaviours is vital as any hint of misalignment will undermine the leader’s credibility and diminish the opportunity to build a new social contract based on mutual understanding and trust.
Conclusion

The psychological contract, or the unwritten agreement between employees and employers, is an important factor in determining the attitudes and associated behaviours of people. Traditionally employees had a clearer view of the psychological contract and organisations sought to meet this view. More recently organisational attempts to adapt to a changing environment have resulted in business decisions that have breached the psychological contract. Such breaches have been shown to undermine the individual’s commitment to the organisation, their job satisfaction, the levels of motivation they display and the degree to which they perceive themselves as citizens of the organisation. In normal times this should be concerning but in times of extreme change and turbulence it may prove disastrous. As such the state of the psychological contract should be of extreme interest to those charged with developing and maintaining organisational resilience.

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organisation unrelated directly to risk and continuity management can undermine resilience through breaching the psychological contract of the very employees deemed essential to crisis avoidance or response. They should seek to map the psychological contract within their organisation and to develop those attitudes and behaviours most beneficial to resilience. Essential in achieving this is strong and focused leadership. Leaders need to be able to balance the short-term gains of organisational change with the longer-term impacts on organisational resilience.

The psychological component of the causes of the current economic downturn, including the risk taking by individuals that put whole organisations in peril, raises an interesting issue. It suggests, perhaps, that the credit crunch might not have occurred in the manner it did had leaders anticipated and

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proactively addressed the psychological contract issue. Ultimately, it is easier to engage in actions that may threaten the long term sustainability of the organisation if you no longer judge yourself to be a valuable, and valued, citizen of that body corporate. With regard to business resilience the message is clear - the psychological contract counts.