



Employee Relations

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Article information:

To cite this document:

Jean M. Hiltrop, (1996) "Managing the changing psychological contract", Employee Relations, Vol. 18 Issue: 1, pp.36-49, <https://doi.org/10.1108/01425459610110227>

Permanent link to this document:

<https://doi.org/10.1108/01425459610110227>

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Managing the changing psychological contract

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36

Introduction

In recent years, organizations have come under increasing pressure to change. Much of this pressure has stemmed from changes in the economic environment, such as increased international competition, slower growth and, in some cases, declining markets, thereby forcing companies to cut costs, reduce prices and achieve dramatic improvements in productivity (Beer *et al.*, 1984). At the same time, there have been a number of important changes in workforce demography, technology and other aspects of the environment that influence the external context of organizations and the way in which they are managed (Sparrow and Hiltrop, 1994). This article looks at some of these changes and considers their implications for effective human resource management. Particular attention is given to the changing psychological contract in an increasingly insecure environment.

The changing psychological contract

Borrowing a term that was originally employed by Argyris and Levinson in the 1960s to characterize the subjective nature of the employment relationship, Rousseau (1994) defined the psychological contract of employment as "the understandings people have, whether written or unwritten, regarding the commitments made between themselves and their organization". From a functional viewpoint, psychological contracts accomplish two tasks:

- (1) they help to predict the kind of outputs which employers will get from employees; and
- (2) they help to predict what kind of rewards the employee will get from investing time and effort in the organization.

Since psychological contracts are by definition voluntary, subjective, dynamic and informal, it is virtually impossible to spell out all details at the time a contract is created. People fill in the blanks along the way, and they sometimes do so inconsistently (Rousseau, 1994). These "additions" are a reality that has many implications for the organization. As Kolb *et al.* (1991) point out, "a company staffed by 'cheated' individuals who expect far more than they get is headed for trouble".

A review of recent surveys, interviews and other investigations suggests that the psychological contract has changed dramatically in recent years, as evidenced by the publication of a special issue of the American journal *Human Resource*

Management on the topic in 1994. Perhaps the most important change has been the inability of organizations to (continue to) offer job security to full-time workers. For some people, job security has never been part of their employment relationship. For instance, there has traditionally been very little job security for those employed in small retail shops or in catering. Similarly, many professionals have always had a loyalty to their professional identity and derived their job security from other factors than simply their company's policy of life-time employment[1]. However, as De Meuse and Tornow (1990) point out, in the 1950s and 1960s most people were afforded a sense of stability and permanence within the organization. Not only was the organizational structure clear, but so was each person's current and future place in it now and in the future. This clarity created a great deal of predictability and security for employees, and probably fostered their loyalty and commitment to the organization. The employer, in turn, acquired a stable workforce and could be reasonably confident that investments in training and development would benefit the long-term capability of the organization. This stability and confidence may explain why large Japanese firms, in contrast to many western competitors, are clinging with such tenacity to their system of "lifetime employment", despite intense demographic and economic pressures to abandon it.

In recent years, however, the tie that binds employers and employees has become severely strained (De Meuse and Tornow, 1990) and has led to a breaking up of organizations into at least four different groups of employees in terms of the psychological contract with regard to career expectations (Herriot, 1992). One factor has been the perceived need for dramatic productivity improvements and cost reduction, forcing most western companies to eliminate jobs not just at the lowest hierarchical levels, but also among those who have traditionally been offered a long-term career within the organization. In the USA alone, "more than 12.2 million white-collar workers lost their jobs between 1989 and 1991 and three million since then. Of these, only 6.3 million found jobs which, on average, earned 30 per cent less than before. For those with more than 21 years on the same job, the new jobs, if they were found, paid 44 per cent less" (Longworth and Stein, 1995). Additional pressure has come from the increased emphasis on restructuring or business process re-engineering as a key impetus for change in recent years, along with the perceived need to improve the flexibility and agility of the organization. Even in banking and insurance, where organizational change has traditionally been slow and incremental, structural changes in the social and competitive environment of the late 1980s and early 1990s have been of such significance that a wholly new approach to the business and the people who work in it is now being implemented. At the Royal Bank of Scotland, for example, radically new ways of rewarding employees have been developed and the old practices of offering job security and career advancement to long-serving employees are being replaced with something dramatically different (see next section). Similar adjustments and transformations are taking place in a number of international companies such as AT&T, Exxon and Asea Brown Boveri, reflecting the fast-changing environment in which these organizations now operate.

The Royal Bank of Scotland

The Royal Bank of Scotland is currently redefining the psychological contract that suggests its employees have jobs for life. According to Steve Rick, the bank's director of personnel policy and development, the shift is part of a major change programme that is fundamental, root and branch re-engineering of the business (*Personnel Management*, August 1994). The programme was designed to put an end to the company's "job-for-life" culture which focused on pay for level rather than for performance. This is being replaced by an achievement culture, where staff are expected to be more proactive within specialist roles. The changes were first introduced to the bank's Glasgow offices, where over 20 grades have been reduced to about five broad bands with different pay scales within each band. Existing staff have had to re-apply for redesigned jobs. The new jobs have been advertised in terms of competences without reference to pay or grade, which has led to lower-ranking staff emerging much higher in the new structure. When this process has been consolidated, it will be extended nationwide to the bank's 10,000 staff.

It is not surprising, therefore, that many employees experience a growing sense of insecurity, distrust and even betrayal in relation to their employer. As layers are cut out from the organization, jobs are eliminated and the employment conditions are (unilaterally) changed, many people feel the psychological contract they have between themselves and the employer has been broken, as in the case of The Connecticut Mutual Life Insurance Company described below. Older employees, in particular, may feel that the unwritten but important psychological contract they have with the employer has been violated by the recent changes in the organization. Joe Galerneau, a manager at AT&T, whose workforce has dropped by 20 per cent in the past decade, thinks his firm is typical. As he put it: "In the past we said to employees, 'Do as you're told and you have a job for life'. Then we betrayed them. Trust levels were devastated" (*The Economist*, September 1994).

The Connecticut Mutual Life Insurance Company

One of the oldest Hartford insurance companies is also trying to change the existing psychological contract. According to Bill Garfield, the vice-president of human resources, the objective is "to introduce uncertainty into an organization that has for 140 years worked on getting rid of every shred of uncertainty that could ever exist" (*The New York Times*, 4 April, 1994). The transformation, still only in its initial stage, calls for most jobs to be posted and the company's 1,889 employees to be reassigned to a new position, with a new pay scale and new duties. Company officials say that most people's salaries will not change significantly, but that some could go up and some could go down. The responsibility for career management is being shifted back to each employee, who may apply for any three posted managerial jobs in the new organization. Newly hired managers will be responsible, in turn, for hiring their own staff, for managing their own career, for keeping their skills and competences up-to-date, and for getting themselves moved to the next position at the right time. The company chairman has vowed repeatedly that this "transformation project" is not about shrinking Connecticut Mutual. Employees are not being braced for large numbers of layoffs, but some people, despite the flurry

of statements, newsletters and question-and-answer brochures to explain the transformation, believe it is all about layoffs anyway, no matter what the company chairman really says. Clearly, some of the risks being taken by Connecticut Mutual will only be evident deep into the future, as employees consider what has happened and adjust to the new work environment.

What is the new contract?

So, given that the social and economic environment is rapidly changing, what is the new understanding people have regarding the commitments made between themselves and their organization? How does this new psychological contract compare with one of the past?

To get some answers, I recently put these two questions to a group of middle managers who participated in a workshop at the International Institute for Management Development in Lausanne. Their responses are summarized in Table I. The key-words used to describe the old contract were stability, permanence, predictability, fairness, tradition, and mutual respect. In contrast, the new contract was described as primarily a short-term relationship, with the emphasis on flexibility, self-reliance and achieving immediate results.

Past	Present
Long-term	Immediate results
Security	Flexibility
Predictability	Uncertainty
Equality	Individuality
Certainty	High risk
Tradition	Constant change
Fairness	Personal gain
Stability	Employability
Interdependence	Self-reliance
Mutual trust	Opportunism
Company loyalty	Professional loyalty
Doing well	Doing better
Shared responsibility	Personal accountability
Title and rank	Making a difference
Pay for status	Pay for results
Tolerance	Impatience
Mutual respect	Fear

Table I.
Key words used by
104 middle
managers to
describe the
relationship
between employer
and employee

It would appear, therefore, that a “self-reliance” orientation increasingly pervades the employment relationship. As one participant commented: “In the new (flatter and more agile) organization, loyalty and commitment remain important. However, people are expected to be flexible and take care of their own ‘employability’ and career”. This situation is a far cry from the “organization man” situation of the

1960s, in which employees were expected to completely invest themselves in their company and the company, in turn, did whatever was necessary to make the employee succeed in their job and career (Whyte, 1956).

Herriot (1992) has likened the new situation to that found on the command bridge of the *Starship Enterprise*. As he explains:

Starship Enterprise has a crew – each plays a necessary role: Kirk the intrepid explorer, Scotty the loyal retainer, Spock the know-how man, and Uhura the eyes and ears. But many employees will be expected to be all four rolled into one – international, loyal, learning and observant. And there's the rub. Not only is this an incredible burden of expectations to bear – it is also a contradictory one. After all, organizations haven't helped employees to meet these expectations in the '90s. The stripping away of layers of middle management and their subsequent "outplacement" hasn't exactly earned reciprocal loyalty. The '80s emphasis on immediate individual performance and its individual reward hasn't actively encouraged teamwork and longer-term self-development. A decade of UK governmental ambivalence. The expectations of organizations for the '90s may be burdensome and demanding; they may seem incompatible with each other and with the practices of the previous decade (p. 44).

So the signs are that many people experience the apparent changes in organizations in terms of a decreased sense of security and identification with the organization. I do not believe that these feelings are caused simply by organizational changes such as downsizing and restructuring. Instead, like Doherty and Horsted (1995), I suspect the main reason for these feelings is that most organizations are buying only half of the new psychological contract. They cannot offer job security, but at the same time they do not want to lose the traditional commitment and loyalty of their employees. As the ability of organizations to offer job security and promotion opportunities is declining, it is clear that loyalty and commitment must be generated through different avenues. Especially in downsized and restructured companies, alternative ways to motivate talented employees must be developed. If not, the productivity gains that have been achieved from downsizing or restructuring will almost certainly be eroded by decreased employee morale, commitment and loyalty to the organization (Sparrow and Hiltrop, 1994).

What can be done to cope with the situation?

According to Herriot (1992), ideal employees of the 1990s are going to welcome adventure and exploration. They are going to be loyal and committed to the organization. They are going to communicate their expert knowledge to others and collaborate with them, and they are going to make intelligent sense of their environment in the light of business strategy. This will require a continual "sequence of renegotiations of the psychological contract which the individual and the organization conduct during his or her period of employment" (p. 8). For many companies, this requires a major shift in the management style of the organization – from the traditional "command and control" style to one that emphasizes participation, teamwork and involvement. In fact, many studies have tested the effect of management style on employee commitment in organizations and most have found that role clarity, two-way communication, decentralization, and direct participation in decision making

all cultivated higher commitment among employees (Morris and Steers, 1980; Rhodes and Steers, 1982; Stevens *et al.*, 1978). Other studies have found that managers can get greater commitment from employees by giving them more discretion, control and other resources for their work (Dansereau *et al.*, 1975). This finding is further supported by Lawler and Mohrman (1989). They suggest that to develop greater commitment among employees, a manager must allow the employee to share in the risks as well as in the rewards. Their concept of "total employee involvement" (TEI) calls for sharing important information, sharing management authority, delegating responsibility for performance management, and allocating rewards based on corporate success.

In addition to changing the management style, research suggests that the current push towards cross-functional teamwork and projects can be seen as a very important development that enhances commitment to organizational objectives. Not only do cross-functional teams make interdependence and co-operation among individuals and functions more visible and decisions less reversible, but they provide a smaller social environment where organizational commitment can be more easily built through relationships, social involvements, and shared values and ideas with team members. Furthermore, such teams increase individual learning and skills, provide more rapid feedback, and overall enhance an employee's personal and professional development.

Furthermore, the challenge of work experience has been shown to be one of the most significant factors in the development of commitment (Meyer *et al.*, 1989; Steers, 1977). Given this strong influence, efforts should be made to design tasks and structures that will enable people to feel a sense of accomplishment, to express and use their talents, and to exercise their own decision-making powers. By designing jobs to increase the opportunity for challenge and self-development, steps can be taken to help ensure a high commitment and identification with the organization. Also, involving new entrants in work that is challenging and that increases their growth and development is important as individuals begin their socialization in the organization.

Finally, maintaining commitment in the face of increased uncertainty and scepticism increases the pressure on organizations to build organizational pride and recognize personal values. Ideally, the organization should be a vehicle with which individuals can develop personal pride and express important values about their work to their friends, family and relatives. As pointed out in the beginning of this paper, the relationship between the organization and the individual has weakened, often resulting in distrust and cynicism towards the organization. Given that many organizations have been restructuring and eliminating jobs and people that were deemed important, it must be pointed out that the changes in the 1980s have resulted in an employment relationship primarily based on instrumental or more extrinsic factors – "What's in it for me?" This type of relationship may not generate the effort and spontaneity necessary for managing a competitive organization (Katz and Kahn, 1978). To be successful, organizations need to integrate as far as possible the needs and values of the organization with those of the individual, so that the latter believes that if the organization thrives, he or she will thrive too. As Armstrong

(1990) says, people may work hard if they believe in the mission of the company and can identify with its values, aims and activities; they will work even harder if they feel that achieving these values does something for them, too.

Organizations, then, need to develop a new kind of commitment – commitment through the creation of meanings and values as created by individuals and groups through their work, their relationships with other people, and their opportunities for growth, rather than impersonal values and mission statements handed down from the top. This does not mean that a chaos of values will occur. As Carlile (1991) argues, what it does suggest is that shared values will form around personal values and meanings which are unique and important to the individual and the group. Rockwell has operationalized this to a degree by suggesting that each management team, work group, or division, should articulate a statement of values (a credo) that expresses the work they do and how they accomplish that work in a meaningful way. What is important is that these credos are unique to each group and help create an identity that can be shared and in which each individual can find meaning. It is these more intrinsic factors that build the kind of commitment that allows employees to be energetic, proactive, and competitive (Carlile, 1991).

Implications for human resource management

Clearly, the changes outlined above have many implications for effective people management in (western) organizations. For instance, how can companies attract and retain people who can live with and often thrive on uncertainty and are willing to change with the organization? How can they get and maintain the loyalty and commitment of employees, when job security, promotion opportunities, and career entitlements are declining? And how can they meet the career expectations of employees who expect rapid promotions in an organization that is becoming flatter, leaner and not expanding enough to create new jobs? These are some of the central questions which must be addressed by organizations today and in the near future. We do not have all the answers, but a review of the various factors that are believed to affect the relationship between employer and employee suggests a number of potential solutions.

New methods to attract and retain people

As mentioned earlier, the new psychological contract rests on the assumption that people will not be automatically loyal to their company, but that, like professionals, they will be moved by a new kind of loyalty to their own disciplines and skills. It also assumes that people will care more about their own development and that their skills are highly transferable between companies and industries. Companies, therefore, can no longer rely on traditional methods and techniques to attract and retain talented workers. Instead of career paths and job security, new kinds of incentives have to be applied. According to Kanter (1994), companies need to switch incentives from careers, status and promotion, to personal reputation, teamwork and challenging assignments. They have to find ways of making work sufficiently challenging and involving so that it becomes a source of loyalty which translates into a new kind of security, which she called “employability security”. This is the promise that the

employee's skills will be enhanced, and access to other tasks and assignments will be facilitated. Kanter argues that this is the best promise employers can give to their staff, particularly in the current era when organizations come and go, change shape or change sides rapidly. She says: "It is a difficult transition of policy, but I am finding companies very receptive to this new philosophy" (p. 3).

In the interest of balance, it must be said that employability is not a universal concept. As Pascale (1995) points out:

A new social contract predicted on employability is the sound of one hand clapping... The idea was born out of a desire to come up with a new "happy ever after" ending to replace the broken psychological contract of the past. We must probe more deeply into the challenges facing both society and the individual if we are adequately to address the void which the loss of job security creates. To be sure, employability becomes more important as employment security becomes less certain. But employability is not a panacea. The predictable reconciliation is a shift to a more contingent form of employment security in which individual performance and firm success determine the length of tenure. Employability will be a nuance in a more contingent employment relationship – nothing more (p. 21).

Align HR policies and practices with social changes

Several studies suggest that the values and expectations of the workforce are rapidly changing. Increasingly, employees want to:

- know more about what is happening in the organization;
- understand why managers have made decisions;
- contribute their own ideas and to participate in the decision-making process;
- have autonomy and meaningful work experiences; and
- feel valued and be personally recognized for their contribution to the success of the organization.

Satisfying these expectations demands a genuine commitment to teamwork, empowerment and decentralization. It also demands a greater commitment to openness, honesty and company-wide information sharing. Being open and honest in the face of insecurity and uncertainty can be very difficult. However, companies like Chevron and AT&T have discovered that when they candidly share information about strategic goals, intentions and results with all employees, commitment to the company and work performance increase, even if the news is bad (O'Reilly, 1994). Therefore, creating a culture of genuine openness probably is one of the major leadership challenges of the 1990s.

Help those who (are forced to) leave the organization

One of the great unanswered questions raised by the new psychological contract is how older employees will fare if the company is continually demanding people to become more flexible and adaptable to change while reducing their job security and opportunities for promotion. One obvious solution is to offer training in job

skills to those who are required to change their work roles in the organization and/or to offer outplacement to those who are made redundant or decide to leave the organization. However, not everyone can be reskilled or outplaced. The main reason for these limitations may lie in the perceptions of individuals themselves. As BP Oil's human resources(HR) manager says: "The problem is how to change people's minds, not to think about career development only in terms of promotion, but to develop a broad range of skills to add value to the job" (Lester, 1994, p. 80). Some companies have tried to deal with this problem by making the access to jobs more transparent. For instance, at Raychem, employees can tap into "IInsiders" (the internal-information interview network), to arrange interviews with other employees who are willing to talk about what jobs they do, and how they got to do them. Other firms, mostly in technology industries, have set up new career centres where employees can find advice on everything from information on job vacancies, both inside and outside the organization, to personal assessment tools to discover individual interests, talents and skill requirements. Whether these services are called outplacement, career guidance, or inplacement, the goals are essentially the same: increasing the mobility, competences and employability of people in the organization.

Invest in the survivors

The effects of restructuring, downsizing and reorganization are likely to be little more comfortable for those who survive these changes than for those who leave the company. As Thornhill (1995) points out, organizations which care about what happens to people they make redundant can still face considerable problems and costs if they ignore the uncertainties facing survivors. For instance, a recent survey of 170 personnel and HR specialists demonstrated that decreased motivation, morale and loyalty to the organization, and increased stress levels and scepticism among remaining employees, were just some of the typical reactions to downsizing and restructuring experienced in 131 UK financial service companies (Doherty and Horsted, 1995). The survey also showed that survivors were demanding more information about the effects of the changes. Yet, despite the fact that most organizations had given employees more such information, poor communication was identified as a major problem in the majority of downsized companies. So communication is one area in which organizations may intervene more effectively.

Another way to reduce the corrosive effects of downsizing and restructuring on the survivors' morale and motivation is to provide counselling to those who stay. This approach has been applied successfully by a number of streamlined companies, such as the Birmingham Midshires Building Society.

The Birmingham Midshires Building Society (BMBS)

In early 1993, almost a third of the senior management at the BMBS left the company during significant restructuring (*Personnel Management*, January 1995). From 1991 onwards, total staff numbers were reduced from about 2,500 to 1,500 by selling part of the business. Hence, it was felt that establishing a programme to rebuild morale and staff satisfaction was critical. Many of the people leaving the company were close friends of those staying, and it was expected that those staying would go

through a period of experiencing the so-called “survivor syndrome”. This is the name given by personnel professionals to describe the stress-related behaviour (such as illness and absenteeism) and the feelings of guilt, anger and resentment often exhibited by the remaining employees following redundancies in their organization. The programme for survivors included counselling and training for all managers involved in informing individuals and teams of the restructuring, a helpline to support staff during the most emotional period, and a communication process to inform “surviving” staff how their former colleagues were progressing in the job market. Within weeks of the downsizing process, a personal development plan was launched, giving all employees a minimum of six days’ training for the year. Employees were also informed about a company-wide incentive plan, which was geared to paying out when customer satisfaction and profitability increased. According to Lorry Wyatt (1995), the director of HR, staff satisfaction held a steady course over this period. The most recent survey shows that 79 per cent of the staff believe that they are given the opportunity to learn from mistakes; and more than 80 per cent say they believe communications issued by the organization. This suggests that the new culture of the organization has taken root.

In other words, open and honest communication is critical for survivors, particularly when there is a sense of guilt about having a job while former colleagues do not. However, merely keeping employees informed of what is happening and telling them to do things better, faster, and cheaper, will not create real commitment to the organization, only fear and compliance. Real commitment can only be achieved through mobilizing energy, ideas, and effort that come from each employee willingly and spontaneously. To get real commitment people need to believe that the organization is worth working for, identify with its mission, and feel a sense of belonging. The methods used by these organizations to achieve this goal are massive and widespread. At British Airways, for instance, significant downsizing of the workforce during the 1980s was followed by a large-scale programme of briefings and communication, as well as a massive investment in team building and process consultation.

British Airways (BA)

The growing deregulation of international air traffic, the decision to privatize the organization, and the rising cost of labour in Britain in the late 1970s, all required fundamental change to the existing structure and organizational culture in order to make the airline profitable and ensure survival. Inevitably, over the period of several years, there were many people changes, plus a massive investment in team building and process consultation to heighten involvement. For example, in 1983 BA began to put a third of its staff through a training programme called “putting people first” in which groups were shown “how their attitudes towards the customer, and towards their colleagues, affected the way in which people saw them”. Some 40,000 employees attended these sessions between November 1983 and June 1985, at the cost of several million pounds to the firm. Strong internal communication of new values and expected behaviour was a further element. In the end, the course was so popular that practically every employee at BA went through it. The financial

results have been outstanding compared to other European airlines. In 1991, BA was voted "best airline overall" by *Business Traveller Magazine* for the fourth year in a row. Together, the various efforts transformed the BA organizational culture from what managers described as "bureaucratic and militaristic" to one that is now described as "service-oriented and market-driven". Now they must maintain what has been achieved while concentrating on continuing to be adaptable to changes in their external environment (Sparrow and Hiltrop, 1994).

What else can be done?

In addition to these four human resource implications, a number of activities can be suggested in order to cope with the changing psychological contract now and in the future. Together, these activities can be seen as a set of methods and techniques designed to enhance the loyalty and commitment of employees by setting up a system for establishing and discussing employee expectations early in the employment relationship, checking out whether the psychological contract is still valid at later stages, and renegotiating the contract if necessary (Hiltrop, 1995).

Provide realistic job previews

Since the initial stages of employment have been shown to be highly critical in setting the future frames of reference for employees, special attention must be paid to how new employees are introduced into the organization. Wanous' (1975) research on the earliest stages of employment has shown that most new employees tend to go into jobs with inflated expectations. He proposes that recruits be given a "realistic job preview" which illustrates both the desirable and undesirable aspects of the organization, rather than using the traditional approach, which tries to maximize the positive aspects of the organization to the exclusion of realistic aspects. Research done by Louis (1980) also suggests that unmet expectations during the initial stages of employment result in a lack of commitment and increased turnover. In view of the fact that most turnover occurs within the first six months, more realistic job previews and a concern towards understanding and meeting new employees' expectations could provide a more realistic and positive initial organizational experience and reduce the cost of early resignations.

Offer challenging work experiences

The challenge of work experience has been shown to be one of the most significant factors in the development of commitment (Meyer *et al.*, 1989; Steers, 1977). Given this strong influence, efforts should be made to design tasks and structures which will enable people to feel a sense of accomplishment, to express and use their talents, and to exercise their own decision-making powers. By designing jobs to increase the opportunity for challenge and self-development, steps can be taken to help ensure a high commitment and identification with the organization. Also, involving new entrants in work that is challenging and that increases their growth and development is important as individuals begin their socialization in the organization.

Balance professional and organizational relationships

The management of expectations is critical at the later stages of the employment relationship as well, especially in the light of the finding that people at medium tenure and position express more commitment to their profession and less to their organization. Perhaps a way to avoid the declining commitment experienced at that stage would be to provide various opportunities for professional memberships, external contacts and affiliations which create a balance between the organizational needs and professional aspirations (Sheldon, 1971). As Herriot (1992) says, the key human resource task in the 1990s is to reconcile two sets of expectations: the organization's need for loyalty and commitment with the employees' rights and needs as individuals and as members of interest groups.

Reward and recognize high achievement

Given the pressure to do things better, faster and cheaper, reward systems should recognize contribution rather than position or status. In addition, since cross-functional projects and assignments are more temporary and less hierarchical, reward systems should be more dynamic and flexible. Reward and remuneration packages (salary, incentives, bonuses, benefits) should encourage employees with the opportunity to serve beyond their job description, gain professional expertise, and cultivate core competences across functional groupings.

Create or strengthen the firm's staffing systems

A company's transition to a new psychological contract brings with it the need to create or strengthen its HR planning capabilities (Burack and Mathys, 1987). As Burack and Singh (1995) argue, the effectiveness and scope of the new employment situation will be directly affected by how well HR planning mechanisms are functioning, including the thoroughness of pre-employment activities and the care and attention to detail of induction processes. In short, the new employment contract calls for comprehensive rethinking of the whole employment process. Exit interviews become important sources of information to understand the unfulfilled expectations and unmet needs of outgoing employees. These can serve to validate or question employment relations actions (Burack and Singh, 1995).

Conclusions

There is no doubt that increasing competition and changing expectations among employees have prompted a growing disillusionment with the traditional psychological contract based on lifetime employment and steady promotion from within. Consequently, companies must develop new ways to increase the loyalty and commitment of employees. For instance, given the pressure to do things better, faster and cheaper, reward systems should recognize contribution rather than position or status. Reward strategies may also be used to rebuild commitment for survivors in downsizing organizations. In addition, considering the shift towards decentralization and empowerment, it is essential that individuals and groups are given more responsibility over salary decisions. Furthermore, rewards should be based on continuous performance and continuous improvement, rather than single events or past achievements.

Systematic training and development (as opposed to sending individuals away on *ad hoc* training programmes) will enhance commitment by giving talented employees the opportunity to develop their skills and to achieve positions of greater challenge and responsibility. In view of the need for cross-functional teamwork, individuals need to be trained in the skills needed for working together with other specialists and functions. Managers need to be trained in counselling and coaching to exercise leadership and facilitate the relationships between the various functions and professions within a work group.

These various strategies and techniques are consistent with the HR policies and practices that successful companies use to achieve competitive advantage through people (Kravetz, 1988; Pfeffer, 1994). However, I suspect that this link between human resource management (HRM) and organizational performance exists only if line managers understand the importance of management practices for achieving competitive advantage and know what personnel policies and practices are appropriate to direct employee attitudes and behaviour towards corporate goals. As Beer *et al.* (1984) point out, without either a central philosophy or a strategic view of the link between HRM and the overall capability and performance of the company (which can be provided only by general managers), managerial behaviour with regard to people is likely to remain a set of independent activities carried out by individuals, each guided by their own personal values, opinions and practical experience. Companies like AT&T and the Royal Bank of Scotland have already begun to reform all policies and practices that affect the relationship between employees and employer. For many others, however, establishing a new set of policies and practices that are in line with business requirements, societal changes and the values and expectations of employees is more likely to be a matter of revolution than reform.

Note

1. I am grateful to one of the reviewers for pointing out this important qualification to the general view of the psychological contract adopted in this article.

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