

Enabling performance beyond the predictable: the psychological contract as the driver of extraordinary performance

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Given the current economic context and resulting business environment of high uncertainty and competition, business-as-usual is no longer an option for market-driven organisations. Extraordinary performance has now become the imperative for organisations that wish to grow and prosper. The key questions, then, are what is extraordinary performance and what drives it?

Extraordinary performance goes beyond what is predictable for the organisation (that is, targets based on past or historical performance) and consequently yields unprecedented business outcomes. While performance forecasts based on historical data might be 'realistic', they hinder the organisation from perceiving possibility and moving beyond business-as-usual norms.

What drives performance beyond the predictable is, of course, people. And the unseen people-based driver that organisations should now be leveraging more than ever before in these times of uncertainty– is the psychological contract. While much has been written about employee engagement in recent years, very few HR practitioners tapped into to the essence of it.

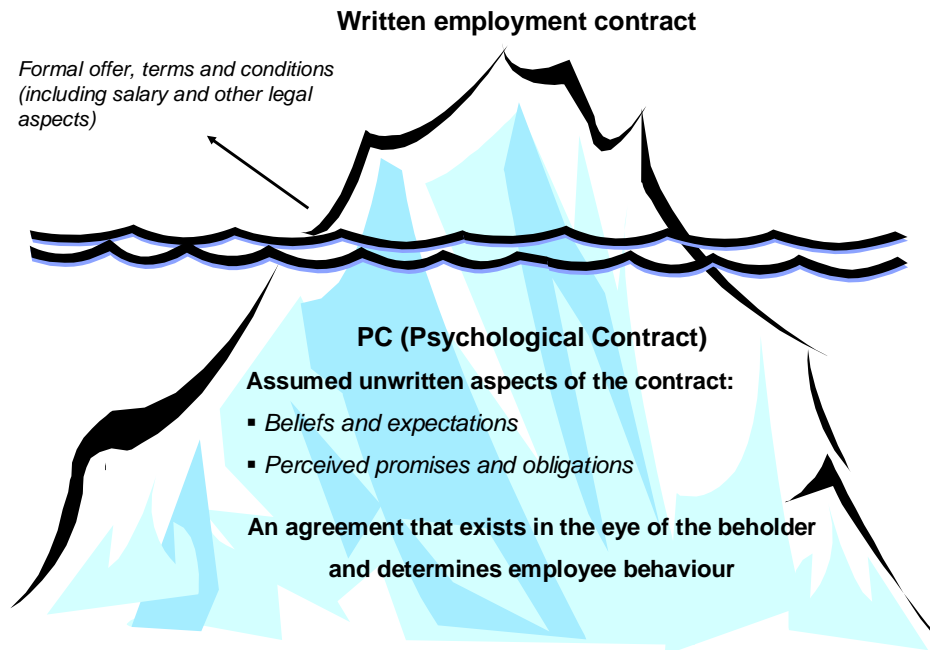
This article explains the importance of the psychological contract and provides practical tips on how to manage and leverage from it. It also introduces a model of extraordinary performance that has enabled many top Australian and global organisations to achieve unprecedented business outcomes. The model outlines the power of the psychological contract and the drivers of commitment, job satisfaction and discretionary effort as antecedents of breakthrough performance, innovation and extraordinary business results.

What is the psychological contract?

The term psychological contract (PC) refers to the relationship between employees and their employers, and plays a key role in understanding organisational behaviour, particularly variation between employees' behaviour. The PC is not a written document. It includes employee's beliefs or perceptions regarding reciprocal obligations in the workplace between employees and their organisations. This includes any unwritten premises, mutual expectations and obligations implied in that relationship. In this context, the terms *expectations* and *obligations* are used interchangeably. In essence, the PC exists in the eyes of the beholder.

The challenge in managing the PC effectively is the fact that it is intangible and unique to each employee. Therefore, with the PC, it is NOT the case that ‘one size fits all’. The same message, event, HR practice or policy may be interpreted differently by different employees.

A simple way to conceptualise the PC is by using an iceberg analogy. The tip of the iceberg, which is tangible and visible, represents the explicit or written part of the employment contract. That is, the formal offer of employment with terms and conditions, including the salary and other legal aspects that bind the employment relationship. It may also include other verbally communicated terms (eg: promises of support and training) and expressions of future intent and commitment (eg: tradition, custom and culture). The hidden, submerged part of the iceberg represents the PC. This includes the assumed and/or unwritten components of the contract - that is, all aspects that go beyond the strict legal interpretations of contracts and address organisational, social and psychological meanings of contracts in the workplace.



In order to effectively manage something intangible like the PC, it is vital to understand who the contract makers are.

The contract makers

Contract makers are any parties that can create a contract with another. There are two main types of contract makers: principals and agents. Principals are organisations or individuals that make contracts for themselves (eg: firms or proprietors who employ a person). Agents are parties acting for another (eg: external recruiters who convey commitments on behalf of an organisation). Using agents increases the possibility of

sending mixed messages unintended by the principal. The primary contract makers include managers, mentors, co-workers, top management and recruiters.

Managers

Managers are by far the most complex and influential primary contract makers. Making contracts on behalf of the organisation and for themselves, they thus act both as principal and agent, and can make or break the PCs of employees. Managers can either mitigate or exacerbate unmet employees' expectations by providing or missing opportunities with employees. Good examples are the way in which they set goals and objectives, provide performance feedback, and handle employees' grievances, emotional support or confidence building. The manager-employee relationship is determined by trust, which is also a key driver of extraordinary performance.

Whether you are a manager or a team member, you can assess the level of trust in your relationship by simply answering the following three questions in this trust quiz:

- (1) To what extent do you, as a manager, and your team member, effectively read each other's behaviour in order to co-ordinate work in a way that is consistent with each other's expectations?

Not at all	To a very slight extent	To a small extent	To a moderate extent	To a considerable extent	To a great extent	To an extreme extent
1	2	3	4	5	6	7

- (2) To what extent do your actions and those of the other person complement each other in order to achieve common goals?

Not at all	To a very slight extent	To a small extent	To a moderate extent	To a considerable extent	To a great extent	To an extreme extent
1	2	3	4	5	6	7

- (3) To what extent are the two of you clear about performance expectations?

Not at all	To a very slight extent	To a small extent	To a moderate extent	To a considerable extent	To a great extent	To an extreme extent
1	2	3	4	5	6	7

Ratings below 4 are of concern, and below 3 of extreme concern – you are probably looking for another job. Ratings of 4 are average, with significant room for improvement. A rating of 5 is healthy. They indicate that you have a trusting relationship with your manager. Ratings of 6 or 7 indicate you are on your way to achieving extraordinary performance. You probably believe your work-related expectations are fulfilled, feel fairly treated, are well satisfied with your job, and very committed to make the required extra effort to contribute extraordinarily to your team and organisation.

Whether you are the manager of a team or a team member, if you wish to ascertain how the other party perceives the trust level of your relationship with her/him, you may wish to consider asking the other party to complete these questions as well and share the ratings with you. The results will give a pretty good indication of how the other party perceives the health of the relationship. It will also set the foundation for beginning a conversation towards better understanding your PC and the journey towards extraordinary performance.

If your ratings are low (0 - 3), it is likely that the notion of sharing your ratings with the other party will not be appealing to you - it might be even threatening. This is due to the lack of trust in your relationship with that person. The best option for you would be to talk to another person in the organisation whom you trust. If you cannot identify such a person, my suggestion is that you contact your EAP (Employee Assistance Program) provider. It is probable that your organisation will have one. Your HR department will be able to provide you with your nominated EAP provider. However, if your ratings fall within the average range between 4 and 6, and you are willing to improve the relationship, you might be more receptive to considering an open discussion with your manager with a view to elevating your level of trust. An option, as a starting point, would be for you to pass this article to the other person and get their thoughts on the matter.

Mentors (both formal and informal) are also contract makers in that they provide newcomers and junior employees with opportunities that would not be otherwise available in the organisation. Mentors, for example, may assist employees in discerning what might not always be obvious, such as the fundamental assumptions and basic working of the organisation. Further, mentors can assist new employees to adapt to the organisational culture. Since many organisations can have different sub-cultures across each level, mentors make it possible for newcomers to learn the different existing deals. Hence, training insiders to mentor can be at least as useful, or complementary to other organisational practices such as training or induction and on-boarding programs. Finally, mentors can also assist veteran employees to make transitions to senior management levels. To explore the role of mentoring in shaping the PC, here are some questions you may wish to consider:

For mentors or potential mentors:

- Am I mentoring anyone in my organisation?
- If yes, how am I positively contributing to shaping that person's PC through my mentoring?
- How would the person(s) I am mentoring rate our relationship using the trust quiz?
- If you are not mentoring anyone, and you believe you could add value to someone in your organisation by mentoring them, what can you do to create such opportunity and by when are you going to do it?

For employees who have a mentor or believe they could benefit from having one:

- Do I have a mentor? If yes, how would I rate them in the trust quiz?
- How could I improve my rating?

- If I do not have a mentor, why not? Who could I talk to in my organisation to explore the possibility of having a mentor?

Co-workers are the most easily accessible contract makers. They usually provide information in relation to their own experience of the management style, treatment of employees and past experiences related to HR practices of the organisation (eg: performance criteria, disciplinary actions and promotions). This sort of information can be easily obtained by casually chatting to other employees, and in fact mostly happens naturally and effortlessly.

Top management's actions also shape the PC, and tend to receive more scrutiny given their influence and visibility. As they are not usually readily available for direct enquiry, their communications and behavior are subject to monitoring and evaluation. Everyone gets to know quickly in any organisation when the CEO takes controversial action or appears to contradict a previous statement of commitment. Thus, 'walking the talk' becomes critically important for senior managers. The message sent is very powerful and has lasting impact, as it is perpetuated through stories that continue to circulate for a long time.

Finally, both external and internal recruiters contribute to the shaping of the PC during the recruitment process. Some organisations tend to sell themselves to applicants. This can be counter-productive, as the tendency is to over-sell. This increases the chances of creating expectations that will not be met in the workplace. Realistic recruitment, which entails attempting to identify whether the applicant's skills fit the job, and matching the individual to the organisation, is associated with lower turnover and high commitment to the organisation. Realistic recruitment means presenting information about the job and the organisation without distortion or exaggeration. This is likely to yield lower job expectations, which is a form of 'inoculation' against negative aspects of the job under offer. Realistic recruitment conveys a PC message that the organisation is far more likely to keep.

Here are 3 tips for recruiters:

- (1) Provide realistic job previews. They acquaint candidates with specific job responsibilities and likely career developments.
- (2) Use work samples. This entails screening and recruiting using specific job-related tasks or simulating representative situations framed as problem-solving questions during interviews; and
- (3) Manage the PC by specifying performance expectations and HR practices while exploring the candidate's own expectations and preferences.

Organisational signals as secondary contract makers

Other contract makers that influence employees are signals like written documents (eg: processes and procedures and other HR written policies and related manuals) that convey information about HR practices such as benefits, compensation, performance criteria, career path and training availability. Documentation of commitments made through advertisements, mission statements and job titles is also included in this 'organisational signals' category. Whether intended or not, HR practice conveys specific powerful messages to employees.

Tips for managers

- *As a manager, do you know what messages (and PC) your team members have received as a result of your organisation's HR policies and practices?*
- *What impact do you think this is having on their sense of fairness, commitment and overall performance?*

Whether or not you choose to answer these questions, I invite you to consider ascertaining what kind of messages (or expected obligations) your team members have formed as a result of the signals your organisation is putting out.

Tip for team members

As a team member, in your discussions with your manager you may wish to consider sharing the expectations you have formed as a result of your organisation's signals, including HR policies and practices.

Contract violation and its consequences

Strictly speaking, violation of a contract is the failure to comply with its terms and conditions. However, in this context, and given the intangible and subjective nature of the PC, an employee's belief that the organisation has failed to adequately maintain the PC constitutes a breach or violation.

The sources of violation of the PC, of course, are the five main contract maker groups identified previously (manager, mentors, co-workers, senior management and recruiters)

Consequences

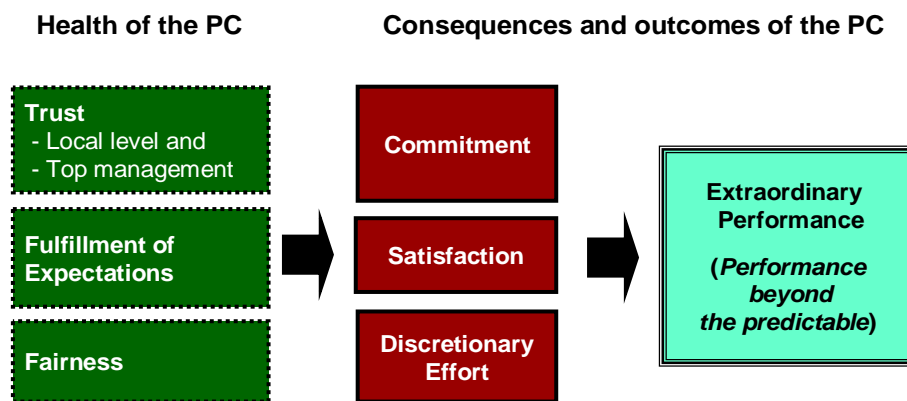
When employees experience PC violations, strong reactions (including anger, hostility, and in extreme situations even aggression or malicious acts) are likely to occur. Employees will act as if something was denied or forbidden that was promised to them in the past. They will experience stress and dissatisfaction and have intentions to leave the organisation.

Violations of PCs are negatively associated with commitment and positively related to intention to leave the organisation. These unfulfilled employees' expectations in respect of the PC show up in the measure of fairness.

Contrastingly, acceptance of the PC results in low levels of stress, job satisfaction, higher job retention and enhanced productivity, ultimately resulting in extraordinary performance when staff ratings in crucial areas of the PC are very high.

Measuring and monitoring the health of the PC: implications for HR professionals

The interactive effects of trust, fulfilment of employee expectations and fairness, as perceived by employees, are the drivers of commitment, job satisfaction and discretionary effort, which in turn predict extraordinary performance. These can be represented as depicted in the diagram below.



By using a psychometrically validated instrument, this model allows the scientific measurement of the health of the PC of any team or an entire organisation. This enables

HR practitioners to address various strategic HR issues, including:

- Predicting turnover
- Quantifying retention risk and associated turnover costs (including talent flight risk)
- Maximising performance and retention, and minimising risk
- Developing effective workforce planning
- Designing and implementing effective talent management strategies
- Designing and implementing effective employee engagement initiatives
- Employer branding (developing a effective employer value proposition - EVP)
- Anticipating extraordinary performance

Conclusion

The importance of the PC in the current economic climate cannot be overly stated. The PC is an intangible, highly subjective, elusive and unwritten set of beliefs and expectations regarding reciprocal obligations in the workplace between employees and their organisations. Despite its elusive and subjective nature, the PC has a powerful impact on employee's organisational commitment, job satisfaction and intention to stay with or leave the organisation. Hence, the PC determines employee engagement and whether your people are ready for delivering extraordinary performance.

Managers are the most influential contract makers in any organisation. A healthy PC motivates people to fulfill their commitments, since these are based on the exchange of promises in which the individual has freely participated. Violation of the PC can have detrimental effects for the organisation. By measuring and monitoring the PC, managers and other HR professionals can prevent negative surprises and strongly influence organisational performance. In so doing, they significantly elevate their value to the organisation and ensure they have a say in board room decisions.

Returning to the iceberg analogy, organisations are well advised to take good note of the psychological contract (PC) lest they share the fate of the Titanic.

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