

Role of psychological contract in starbucks



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The concept of the invisible contract can also be expressed as psychological contract which entails the unwritten employment relationship between the employer and the employee. It is an unspoken set of beliefs usually hidden or remains invisible, held by both parties which co-exist with the written contract of employment. The psychological contract is used to refer to the perceptions of what both employers and employees have regarding their business relationship based on what they are to give and receive from each other respectively. This concept can be traced back to Ancient Greek Philosophers as well as social contract theorists like John Locke and Thomas Hobbes. Kotter (1973) describes the psychological contract as an implicit contract with specifications of how both the individual and organisation are meant to behave in their employment relationship.

The psychological contract is an abstract relationship between employers and employees driven by their perceptions of values. According to Cluterbuck (2005) value has three core meanings and they are value as respect, value as worth and value as beliefs. Value as respect refers to the perceptions of the employees towards the organisation with regards to how the employee feels about working with that particular organisation. If the employees feel that they are contributing positively to the organisation and if these efforts are being recognised by the organisation, the hidden orientation becomes successful. Value as worth on the other hand refers to how the employers and employees create added value for each other through reciprocal rewards. For example, the organisation providing Good pay and providing training and development opportunities for the employees

while the employees in turn add value to share holders in order to raise capital.

In this proposal various psychological aspects will be described in the context of organization and also its employees and also the appropriate methodology for this research will be discussed for the further completion of the investigation.

1. 1 Research Question

What is the role of the invisible contact or psychological contract between employers and employees in Starbucks coffee in City East District?

1. 2 Key Aims

This research seeks:

- To compare the Old and New Types of the Psychological contract
- To explore the opinions of a selection of Starbucks Coffee's employees and their managers about their side of the psychological contract.
- To evaluate the assumptions both employers and employees have towards the concept of the psychological contract.
- To explore how psychological contracts can be enhanced to increase competitive advantage in supermarkets.
- To examine the changes in the psychological contract over the years, the reasons for the changes and the influence the new contract is having over both employees and the organisation.

1. 3 Background of the Company:

Starbucks Corporation is an international coffee and coffeehouse chain based in Seattle, Washington, United States. Starbucks is the largest coffeehouse company in the world, with 16, 120 stores in 49 countries, including around 11, 000 in the United States, followed by nearly 1, 000 in Canada and more than 800 in Japan. Starbucks sells drip brewed coffee, espresso-based hot drinks, other hot and cold drinks, snacks, and items such as mugs and coffee beans. Through the Starbucks Entertainment division and Hear Music brand, the company also markets books, music, and film. Many of the company's products are seasonal or specific to the locality of the store. Starbucks-brand ice cream and coffee are also offered at grocery stores.

In May 1998, Starbucks successfully entered the European market through its acquisition of 65 Seattle Coffee Company stores in the UK. The two companies shared a common culture, focussing on a great commitment to customised coffee, similar company values and a mutual respect for people and the environment.

CHAPTER 2

2. 0 Literature Review

This chapter highlights the major arguments surrounding the concept of the psychological contract. The psychological contract is unwritten and therefore it is merely implied but could be explicit to some extent but not necessarily allow for agreement to the parties involvement. It can differ from individual to individual as well as from various organisations because individuals have various perceptions even with the same terms and conditions it still varies amongst individuals.

The concept of the psychological contract can be traced back to Ancient Greek Philosophers and social contract theorists like John Locke and Thomas Hobbes. William Morris described “ Love of work” as a Man at work creating something which he feels will exist because he is working at it and wills it and is therefore exercising the energies of his mind, soul and body (Morris 1870).

2. 1 Definitions of the Psychological contract

Agyris (1960) has been given credit for bringing to limelight the concept of psychological contract. He describes the psychological contract as a set of practical and emotional expectations of benefits that both employers and employees have of each other. Kotter’s (1973) defines the psychological contract as an implicit contract between an individual and his organisation which specifies what each is expected to give and receive from each other in the relationship. Morrison and Robinson (1997) on the other hand describe the psychological contract as an employment belief about the reciprocal obligations between that employee and his or her organisations where these obligations are based on perceived promises and are not necessarily recognised by agents of the organisation. According to Schein (1978) the psychological contract was described as “ a set of unwritten reciprocal expectations between the individual employee and the organisation”.

According to Goddard (1988), the way psychological contract is managed will determine how successful an organisation will become. The psychological contract entails what both parties to the contract (i. e. the employer and employee) expect from each other based on their employment beliefs and values.

2. 2 Types of Psychological Contract

Rousseau (1995) describes four types of psychological contract. The first type is the transactional which is short term and there is very little involvement of the parties, employees are more concerned with compensation and personal benefits rather than being good organisational citizens (Robinson et al 1994). The second type of psychological contract is the relational, which is a long term type focuses on more emotional factors like support and loyalty rather than on monetary issues like pay and compensation. The third type is the hybrid or balanced which aims at long term relationships between employers and employees as well as specifying performance requirements. The fourth type is the transitional contract which according to (Rousseau, 1995) does not offer any form of guarantee because of the ever changing nature of the organisation's environment.

Short Term Long term

Transactional (ex. retail clerks hired during Christmas shopping season)

Low ambiguity

Easy exit/high turnover

Low member commitment

Freedom to enter new contracts

Little learning

Weak integration/identification

Balanced (ex. high involvement team)

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High member commitment

High integration/identification

Ongoing development

Mutual support

Dynamic

Transitional ex. employee experiences following merger or acquisitions)

Ambiguity/uncertainty

High turnover/Termination

Instability

Relational (ex. family business members)

High member Commitment

High affective commitment

High integration/identification

Stability

Table 1: Types of Psychological contract (Rousseau 1995 Pg 17)

The psychological contract is an abstract relationship between employers and employees driven by their perceptions of values. According to Cluterbuck (2005) value has three core meanings and they are value as

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respect, value as worth and value as beliefs. Value as respect refers to the perceptions of the employees towards the organisation with regards to how the employee feels about working with that particular organisation. If the employees feel that they are contributing positively to the organisation and if these efforts are being recognised by the organisation, the hidden orientation becomes successful. Value as worth on the other hand refers to how the employers and employees create added value for each other through reciprocal rewards. For example, the organisation providing Good pay and providing training and development opportunities for the employees while the employees in turn add value to share holders in order to raise capital. There must also be a sense of equilibrium here so the parties involved feel a sense of fairness.

There are two main types of psychological contract and they are the Transactional and Relational Psychological contracts. The transactional focuses on short term and specific monetary agreements with little involvement of the parties where employees are more interested in good benefits and compensations. The relational psychological contract on the other hand is a long-term contract that focuses on support and loyalty rather than on monetary issues, it is a more emotional contract. Rousseau (1990) categorisation of obligations as relational or transactional is shown below (Table 2)

Employer Obligations:

Transactional

Employer Obligations: Relational

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Employee Obligations: Transactional

Employee Obligations:

Relational

Advancement

Training

Notice

Overtime

High Pay

Job security

Transfers

Loyalty

Merit Pay

Development

No competitor support

Extra role behaviour

Support

Minimum Stay

Source: Rousseau (1990)

Table 2: Categorisation of employer and employee obligations as Transactional or Relational

2. 3 Changes to the Psychological contract

The concept of the psychological contract has led Academics to carry out a vast and in-depth research on the subject matter. The concept of the psychological contract has changed over the years and this chapter will describe its changes. Holbeche (1998) noted that the old psychological contract existed before the 1980's where employment was guaranteed as long as employees continued to perform their best at work. The change occurred from the 1980's to the present as a result of emergent challenges to corporate strategies which were being influenced by economic turbulence. There was an urgent need by organisations to adopt change to deal with economic downturns and as a result of this most organisations began the process of downsizing and began to focus more on their core business and outsource other peripheral activities. These business strategies were required for organisational development and they challenged the old psychological contract that was based on Job security and moved focus to a new contract that is based on employability.

According to Hiltrop (1995), the psychological contract that gave job security and job stability to the relationship of both employees and employers has dramatically altered in the past two decades. He further stresses the change in nature of loyalty and commitment with the emphasis changing from long term careers to current performance. Rousseau (1995) acknowledges these

changes by stating that contracts were previously transactional in nature but with the emergence of the bureaucratic era they developed to become relational.

The old psychological contract was based on a reciprocal obligation of both employer and employee where employees provided loyalty to employers and employers gave Job security. Various factors led to the change in the psychological contract and they include amongst others the recession in the early 1990's as well as the effects of globalisation. This resulted in a change from the old psychological contract to a new contract.

Individual offered:

Organisation expected:

Loyalty

Loyalty

In-depth knowledge of organisation

Staff with a deep understanding of how the business functioned

Acceptance of bureaucratic systems that defined the individual's rate of progress

Willingness to build a career slowly through a defined system

Willingness to go beyond the call of duty when required

Individuals who would put the organisation's needs before any outside interests

Individual expected:**Organisation offered:**

Job security

Job security

Regular pay increases

Regular pay increases based on length of service

Recognition for length of service

Status and rewards based on length of service

Recognition of experience

Respect for experience

Table 3: Adapted from Pemberton's model of the psychological contract (1998)

Table 3 represented above describes the characteristics of the old psychological contract where the organisation provided job security and rewards based on length of service and the employees provided loyalty and commitment on their part.

Sparrow's (1996) interpretation of this new contract is outlined in table 4 below:

Change vs Stability

Continuous Change

Culture

Performance based reward

Development

Employees for self-development and increasing their employability.

Emphasis on development of competencies and technical skills

Rewards

Paid on contribution

Promotion Criterion

Performance

Promotion Prospects

Fewer chances of promotion due to essentially flat organisational structures

focus on sideways moves to develop a broader range of skills

Relationship Type

Transactional rather than relational; no job security guarantees

Responsibility

Accountability and innovation encouraged

Status

Fewer outward symbols

Trust

No longer seen as essential. Emphasis on engendering commitment to current project or team.

Table 4: Adapted Sparrow's new psychological contract (1996)

These changes occurred against a background of economic hardship; redundancies were widespread, unemployment increasing and government focused on reducing trade union powers. The outcome was a more vulnerable and wary workforce. The economic climate forced companies to examine cost reduction as a means of sustaining or increasing profits. Human resource policies were cost effective rather than paternalistic. Staff were increasingly seen as resources who were useful for a specific role and either adaptable or replaceable when that role ended.

The new contract is based on the offer of the employer to provide fair pay for the employee as well as providing opportunities for training and development. As a result of this, the employer can no longer offer job security and as such has weakened the amount of commitment employees have to offer. Atkinson (2002) suggests that the new contract focuses on the need for highly skilled flexible employees who have little or no job security but are highly marketable outside the organisation.

Bagshaw (1997) states that, in this new Psychological contract, individuals need to commit to five key areas which have both short term and long term views. They are Continuous learning, Team working, Goal setting, Proactive change management and Personal advocacy and networking (Bagshaw 1997 pg 188). He further argues that if these key areas are focused on, the employees will be raising their values of future employability. Furthermore, the common dialogue between the two parties with similar interests in mind will establish commitment and loyalty.

The reasons for such changes were described by Herriot and Pemberton (1997) as the Restructuring and continuous change of organisations led to increased feelings of inequity and insecurity and as a result, motivation was affected negatively.

Hall and Moss (1998) demonstrate the shifting of the psychological contract using three stages of adaptation. The first stage, they described as the trauma of change state and they argued that a lot of organisations go through this stage. The second stage they described as adapting to the new contract where they estimated a 7-year period may be needed in order to fully adapt to the new contract stressing it's not a linear process and as such it is possible to fall back to previous states. The third stage is described by Atkinson (2002) as the point of gradual change and continuous learning, valuing the employee and offering loyalty to employees based on performance and development. This stage seeks to avoid the trauma of the changing contract by offering fundamental respect for the individuals involved.

Hall and Moss (1998) argue that changes to the psychological contract are possible without going through the first and second stages if handled appropriately. Atkinson (2002) further develops two concepts that emerge from long term management of the contract. The first is that organisations that are successful will provide opportunities and resources to enable individuals to develop their own careers through a relational approach. The second is that organisations will need to be more effective in renegotiating contracts and minimising risks of violating contracts (Rajan, 1997). This is because violating contracts will have negative impacts on employee attitudes and motivation.

2. 4 Employer and Employee Perceptions

Shore and Barksdale (1998) describe a productive employment relationship as one in which a degree of balance in perceived employee-employer obligations exist. This degree of balance suggests a mutual supporting relationship in which employees offer their skills and organisational commitment in return for rewards from the organisation.

Winter and Jackson(2006) argue the need to consider both employer and employee perspectives, they suggested that it will enable investigation into the perceptions of mutuality of both parties and through this process, evaluate how well the employer has fulfilled his obligations to the employees and vice versa.

Rousseau (1995) states that psychological contracts are formulated in the minds of the individuals and as a result reflect individual beliefs shaped by the organisation in regards to exchange terms between the employee and

the organisation (Winter and Jackson 2006). Rousseau (1995) stresses the need for a link between the employees promises and obligations towards the organisation and that of the employer towards the employee. This is because of the differences in perceptions of both employers and employees of what constitutes the conditions of a reciprocal exchange agreement (Winter and Jackson 2006).

Above describes the employment relationship of both employer and employee with transitions employees are likely willing to make and what they are able to offer in return. Herriot (1998) describe the process of contracting and negotiating between the employer and employee with a need for organisations to discover individual or group wants and match them with their own wants and offers through negotiation.

Holbeche (1998) describes what employer's perceptions of employees obligations are, as:

Employees will take responsibility for managing their own careers

- Be loyal and committed
- Be dispensable when they are surplus to requirements
- Be adaptable and willing to learn new skills and work processes
- Holbeche (1998) further suggests the main components of employee expectations as:
 - To be more employable in exchange for job security
 - For organisation to support career development in return for loyalty
 - For high skills and expertise to be recognised and duly rewarded

According to Armstrong and Stephens (2005), a positive psychological contract is strongly linked to higher employee satisfaction, better employment relations and higher commitment to the organisation. They further suggest how performance management processes can help clarify the psychological contract and make it more positive through:

- Defining the level of support to be exercised by managers.
- Providing non-monetary rewards that reinforce the messages about expectation.
- Providing a basis for the joint agreement and definition of roles.
- Providing financial rewards through schemes that deliver messages about what the organisation believes to be important.

Shields (2007), states, trust has been discovered to be a critical factor in employee behaviour and outlook. He further argues that when the level of trust between employers and employees fall, employee commitments and satisfaction deteriorate as well as motivation and effort. Guest and Conway (1997) outlined the following set of practices as having the most positive influence on employee work attitudes and behaviour and they are:

- Job security
- Training Opportunities
- High Pay
- Open communications
- Employee involvement programs

According to Turnley et al (2003), psychological contract breach results in a number of negative results which include, lower levels of employee

commitment, increased cynicism, reduced trust, reduced job satisfaction and high turnover.

2. 5 Employee Motivation and the Psychological Contract

Employee Psychological contracts are defined by Flannery (2002) as the important additional component to an employee's job description which makes the job worth doing and reflects the main source of employees' motivation. These contracts are part of what motivates employees to be productive at work and enables them to give their all at work. Shore and Barksdale (1998) discovered that employees reported higher levels of commitment, lower levels of turnover and higher organizational support when their employment relationships with their organisations were fulfilled.

Rousseau (2004) suggests three ways in which employees design their own psychological contract. First, through their career aspirations, employees make different commitments to the organisation based on whether they view it as a long term employment possibility or a short term one which they need to move on to attain better opportunities. Employees with a stepping stone perspective tend to adopt transactional contracts while employees with long term employment possibilities tend to be more relational in contract nature.

The second determinant is the personality of the individual, employees that are highly neurotic will tend to adapt more transactional contracts because they tend to reject actions by organisations to build relationships while conscientious workers on the other hand who possess great value for duty are more likely to have relational contracts. Thirdly, Rousseau states that employees who have negotiated special arrangements that are not usually available to others usually believe they relational contracts. This is because

they have negotiated for opportunities for training and development which are special arrangements and a feature of relational contracts.

A survey conducted by Guest and Conway (1997) on The Motivation and effort of employees discovered that the more motivated employees had a more positive psychological contract which presupposes that employees who are satisfied with their jobs and committed to their organisations report higher levels of general motivation so also do those with a positive psychological contract (Guest and Conway 1997).

It was also discovered that attitudes have the highest influence on reported levels of motivation. Osteraker (1999) suggests there is a link between values and needs stating that individual needs, influence motivation and those needs determine how individuals will behave. Osteraker (1999) further stresses that values and attitudes can change over time due to a change in the organisation such as downsizing and restructuring.

2. 6 Culture

Hofstede (1984) suggests that different cultures imply different mental programming that controls activities, values and motivations. Therefore, organisational commitment is a psychological state that characterises the employee's relationship with the organisation (Kong 2007). Culture is described as consisting of a system of values, attitudes, belief and behavioural meanings shared by members of a society (Thomas et al 2003). According to King and Bu (2005) employees of different cultural traditions and socio-economic environments are more likely to have very different perceptions on employer-employee relations.

The type of psychological contract that individual employees will form with their employers is influenced by the personality traits, societal values and cultural norms of that particular individual (Raja et al 2004). This further implies that individual personality traits and cultural norms could provide a system that will explain why employees facing similar work environment and work conditions may form very different employment relationships with their employers (Zhao and Chen 2008). These norms, values and beliefs provide a framework that will determine the way individuals behave and act accordingly. Individualism is defined by Gould and Kolb (1964) as an emphasis on one's self as separate from the others and an end in itself. The individual is independent and self reliant believes in self development and competition. In collectivism, the self often overlaps with a group. The main focus is on cooperation with a group, interdependence, social norms with the group comprising of the main unit of social perception with individuals viewed as embedded in a universe of relationships (Lebra 1984).

According to Thomas et al (2003) individualism refers to the tendency to be more concerned about consequences of behaviours of one's personal goals through viewing oneself as independent of others while collectivism on the other hand refers to view oneself as interdependent with selected others with consequences of behaviour for the group as a whole and group interest. Research carried out by Zhao and Chen (2008) discovered, that individuals with an individualistic cultural value tended to form more transactional psychological contracts while people with a collectivism cultural value formed more relational contracts.

It was discovered that collectivism motives tend to avoid differentiation and focus on relational contracts while self motives were more transactional in nature. This goes in line with research conducted by Lee (2000) where it was discovered that relational contracts are more likely related to behaviour in work groups in Hong Kong than in the United States.

2. 6. 1 Culture, Personalities and the Psychological Contract

Rousseau (1995) outlines the two most important influences of employee's psychological contract and they are both the organisational influences and employees personal dispositions. According to Tallman and Bruning (2008), the way employees interpret information from their employers, their observations of actions and activities in the workplace, together with their personal dispositions are theorised to create idiosyncratic contract attitudes in the minds of employees. Additionally, if management understand the factors that influence the development of employee psychological contracts, they may be able to manage these contracts more effectively (Tallman and Bruning 2008).

Research carried out by Raja (2004) established a link that connected several facets of employee personality to their psychological contracts. Their research examined personality traits, including extraversion, conscientiousness and neuroticism and the extent to which these personality constructs related to employees choice of a transactional and relational psychological contracts.

People high in neuroticism have poor job attitudes and they are unlikely to give of themselves other than what is necessary to maintain their jobs

(Tallman and Bruning 2008). Kichuk and Wiesner (1997) further argue that people high in neuroticism are fearful, angry and functions as poor team performers with poor attitudes towards change. Neuroticism has been found to be negatively related to self-esteem and locus of control (Judge et al, 1998). These findings suggest that employees high in neuroticism will develop obligation attitudes that reflect low job commitment and an unwillingness to take initiative in their work.

The outcome of Raja et al (2004)'s research was that neuroticism was positively related to transactional contracts and negatively related to the relational psychological contracts. Relational contracts are dynamic, involving, emotional and prolonging contracts in nature while transactional contracts are short term contracts with little close involvement of the parties (Rousseau 1995). These findings suggest that neurotic employees reject actions by organisations to build relationships with them and as such are focused on instrumental needs such as good pay and benefits.

Raja et al (2004) found extraversion positively related to relational contracts and negatively related to transactional contract indicating extroverted employees are willing to engage in long term relationships with their organisations. This is line with the research conducted by Judge et al (1998) that discovered that extroversion has been related to high job performance, job satisfaction, team performance and low absenteeism.

2. 7 Psychological Contract Violation

Psychological contract violation has been defined as a failure of the organisation to fulfil one or more obligations of an individual's psychological

contract (Robinson and Morrison 1995). They further make a distinction between breach and violation, stating that the breach is the identification that the organisation has failed to fulfil one or more obligations within one's psychological contract.

Robinson and Morrison (1995) further emphasise that the breach could be relatively short term and as a result individuals could return to their normal 'stable' psychological state or it could alternatively evolve into the full contract violation. Violation on the other hand is the more personalized emotional state that follows from the belief that the organisation has failed to uphold its part of the psychological contract. Rousseau (1989) describes the contract violation as a broken promise that calls into question respect and codes of conduct which increases intensity of responses.

Robinson and Morrison (1995) suggest that the beliefs by employees that obligations and promises have been unfulfilled by the organisation will lead the employees to most likely report a reduction in perceived obligations to their employers, lower job satisfaction and lower citizenship behaviour. Additionally, psychological contract violation reduces organisational commitment and increases cynicism (Robinson and

Prior research conducted by Robinson and Rousseau (1994) reveal that contract violations frequently relates to promotion, compensation and training and development where the employees feel that the organisations has not fulfilled their side of the promise.

CHAPTER 3

3.0 Research Methodology

There are two types of research method

- Quantitative Method
- Qualitative Method

Quantitative Method

All research will involve some numerical data or contain data that could usefully be quantified to help researcher's question and to meet objectives.

Quantitative method re