**Managing the Psychological Contract for Employers of Choice:
Would You Like Fries with That?**

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ABSTRACT

In Australia, as elsewhere in the Western world, organisations are endeavouring to position themselves as 'Employers of Choice' (EOC). In marketing parlance, becoming an EOC involves construction of a unique 'brand identity' and 'value proposition' that sets an organisation apart from its competitors in a tight labour market. In other words, understanding how the psychological contract can be constructed as an attractive 'value proposition' is a prerequisite for successful employer branding. Recently, in the light of perceived theoretical limitations and practical implementation issues associated with the psychological contract, there has been a call for an expansion of the perspectives used to inform its conceptualisation and management. In response, this paper explores the application of marketing concepts and theories to the psychological contract, highlighting the differing manner in which employees and the organisation perceive value in relation to the benefits and the costs associated with the employment relationship. It suggests that using everyday marketing language and concepts surrounding notions such as 'value' and 'price' offers the potential for broadening managers' understanding of the psychological contract and its role in creating and sustaining a viable EOC position.

Keywords: Human resource management, Human resource management and organisational performance, Strategic human resource management.

INTRODUCTION

In Australia, as elsewhere in the Western world, factors such as the globalisation of competition, the 'tightening' of skilled labour markets, advancements in technology, the growth of the knowledge economy, and the need for flexibility and expertise in the workplace have each represented strategic challenges to which firms have had to respond (Aghazadeh 1999; Barnett & McKendrick 2004; Harrison & Kessels 2004; Hiltrop 2006; Rowley & Warner 2007; Sparrow 2007). The resultant pursuit of increased responsiveness, productivity, flexibility, and innovative capacity have been the defining characteristics of the 'strategic human resource management' (SHRM) movement that has emerged over the past 20 years (Beer *et al.* 1985; Forman & Cohen 1999; Klingner 1993; Sheehan, 2005; Vogel 2006; Wright & Snell 1998).

In conjunction with the emergence of SHRM has been the recognition (by both academics and practitioners alike) that an integrated set of effective HRM policies has a significant positive impact on organisational performance and the development of sustainable competitive advantages (see Afiouni 2007; Becker & Huselid 2006; Chew & Horwitz 2004; Fusco 2003; Greening & Turban 2000; Herman & Gioia 2001). The adoption of SHRM has also led to an intensification of competition between firms for high-quality human resources - especially those that compete in competitive labour markets where skill shortages are prevalent (Holland, Hecker & Steen 2002; Shah & Burke 2005).

One strategy employed by Western firms facing direct competition for high-quality employees has been to present themselves as an 'Employer of Choice' (EOC) in their respective industry (Lenaghan & Eisner 2006; Mackes 2005). Organisational efforts to establish an EOC position have entailed the use of 'employer branding strategies' that borrow specific marketing concepts and principles for the express purpose of marketing firms to their target labour market(s) (Backhaus & Tikoo 2004; Berthon, Ewing & Kian Hah 2005). As such, EOC strategies represent organisational attempts to construct a unique 'employer brand identity' based on a 'value proposition' that sets it apart from competitors in some meaningful way (Herman & Gioia 2001).

The perceived importance of being an EOC is arguably reflected in the growing number of awards dedicated to the process and effort involved in its achievement. In the U.S., for example, effective EOC strategies are celebrated by awards and certifications such as the 'Contact Center Employer of Choice'™ (see Contact Center EOC Website 2007). In the U.K., there is the 'Thames Valley Business Awards' (see Thames Valley Business Awards Website 2007). In Australia and New Zealand, effective EOC efforts are similarly recognised by the 'Davidson Trahaire Corpsych' (AHRI Website 2007) and 'Hewitt' Awards (Hewitt Best Employers Website 2007). These EOC awards generally focus on, *inter alia,* a recipient firm's:

- reputation/status within the broader industry and business community;
- linking of HR and business strategy to derive a competitive advantage;
- competitiveness in the labour market;
- flexible work practices and work/life integration;
- strong leadership style, inclusive management style, and levels of employee engagement;
- performance-linked competitive reward and recognition systems; and
- emphasis on development of peoples' talent and skill as a corporate priority.

In order to be effective, therefore, a firm's EOC identity needs to be constructed using a balanced package of explicit SHRM policy offerings (e.g. remuneration package, training and development programs etc.) as well as other 'psychological benefits' (e.g. work-life balance considerations) that represent value to both its current and potential employees (Backhaus & Tikoo 2004). A prerequisite for effective EOC positioning, therefore, is understanding the 'value proposition' to be embodied in the firm's 'brand'; that is, understanding what the firm is able and willing to offer as inducements for highly-skilled people to enter, remain, and perform effectively in the employment relationship.

BECOMING AN 'EMPLOYER OF CHOICE': THE ROLE OF THE PSYCHOLOGICAL CONTRACT

One area of HRM theory that has enjoyed increasing attention in recent times, arguably driven by the above issues, is that surrounding the 'psychological contract' (Cullinane & Dundon 2006). In general terms, the psychological contract deals with the pattern of unwritten beliefs held by the employee and organisation about what each should offer the other, and what each is obligated to provide in the exchange relationship that operates between them (Anderson & Schalk 1998; Rousseau 1989, 1995). Unlike the formal employment contract, which sets out explicit terms and conditions, the psychological contract is cognitive-perceptual in nature; that is, it is implicit and reflects the individual's perceptions and interpretation of organisational actions pertaining to the employee-organisation relationship (Millward & Brewerton 2000; Coyle-Shapiro Shore Taylor & Tetrick 2004).

Psychological contracts emphasise either a 'transactional' short-term perspective, or a 'relational' long-term perspective, depending on the individual employee's attitudes and behaviour towards work and the organisation (Rousseau 1995). A transactional perspective entails exchange that is reasonably explicit, short-term and economic ('monetisable') in nature; such exchange assumes rational and self-interested parties, and does not result in ongoing interdependence. On the other hand, a relational perspective embraces more complex exchange that promotes interdependence through a commitment to the collective interest over self-interest; its currency is socio-emotional in nature and therefore less obvious between contracting parties. A relational perspective tends to evolve over time and involves long-term investments from both parties. Most psychological contracts contain both forms of exchange to varying degrees, and must deliver mutual benefits to the employee and the organisation if they are to continue to operate (Rousseau & McLean Parks 1993).

The concept of the psychological contract has garnered wide support, not only from organisational scholars examining the impact of changes in employment on the individual, but also from managers and employees in the workplace who see it as an important motivational issue (Coyle-Shapiro et al. 2004; Hiltrop 1995a, 1995b; Kabanoff et al. 2000; Shore et al. 2004). This positive endorsement of the psychological contract concept by academics, managers and employees alike stems in part from its fit with the market philosophy and contract culture that has dominated economic policy and business thinking in the last two decades (Rawsthorne 2005). Recently, however, observed theoretical limitations and practical implementation issues have led to calls for an expansion of the theoretical perspectives that inform the construction and management of the psychological contract (Coyle-Shapiro et al. 2004; Cullinane & Dundon 2006). Answering this call, we suggest that there may be merit in using everyday marketing language and concepts, surrounding notions such as 'value' and 'price', to conceptualise and manage the psychological contract more effectively. We feel that exploring the concept of the psychological contract using a marketing perspective offers the possibility of broadening our understanding of the psychological contract and its role in creating a viable EOC position in a tight labour market. However, before launching into that discussion, let us set the scene for those of you whose life experience has not included engagement with the language of the marketing world.

OF HAMBURGERS AND HUMAN RESOURCES: UNDERSTANDING THE CONSTRUCTION OF VALUE AND PRICE IN MARKET EXCHANGES

Bring to mind a time you purchased a hamburger as a replacement for a home-cooked meal. The reasons for such a purchase can be many and varied, but for the sake of this paper we would like to focus on the benefit of convenience – that is, that neither you nor your partner can be bothered spending any time in the kitchen cooking after a particularly hard day working or playing. Once selecting the fast food outlet of choice, your usual practice is either to visit the outlet personally for a dine-in or take-away experience, or to stay at home and phone-order a meal that can be delivered to your door. Regardless of the specifics, from your perspective the transaction requires an exchange of cash for you to receive the hamburger and the benefits, such as convenience, associated with it. Let us not forget that from the vendor's perspective, there is also a benefit or profit derived from this transaction. Through the exploration of this mutual benefit scenario (as espoused in the marketing literature) we can draw a parallel with the effective management of the psychological contract.

When considering what fast-food to purchase, you as the purchaser take into consideration a wide range of variables. The first, and perhaps most obvious, relates to the benefits sought in the transaction. For example, aside from wishing to satisfy your hunger, you might consider purchasing your favourite brand of hamburger in the knowledge that you know exactly what you're going to get. Alternatively, you might consider the opportunity costs (for example, the time factor involved in visiting the outlet, purchasing the food, and returning home in time for it to satisfy the palate) as part of your decision. If you consider the home delivery option, you might additionally consider the reputation of that fast food business in terms of the accuracy and timeliness of its delivery service. Additionally, and in order to add more excitement to your life, you may seek to try an offering that you and your partner have never had before. On the other hand, depending on how well you get on with your partner, you may or may not be interested in understanding what your partner wants before you place your order. Without going into the dynamics of interpersonal relationships, or the myriad of other possible perceived benefits that might underpin your purchase of a hamburger, it is clear that there are many product/service and non-product/service considerations that you as a purchaser can take into account when deriving your assessment of the benefits of the purchase. Once you have had the opportunity to accommodate those considerations you consider important, you are then able to conceptualise the value proposition, and enter into the transaction in an informed manner.

From your perspective as the purchaser, the transaction for a fast food meal typically involves the exchange of money for a product you expect will have some value over and above the hamburger itself (that is, it would include a convenience factor for example). In this transaction, you as the purchaser are usually presented with a price for which you receive a value proposition. As long as you perceive the value received as equal to, or greater than the price, then you will be likely to enter the transaction, be content with the outcome, and more likely to consider this transaction again in a future similar circumstance. If, however, you perceive the price paid to be greater than the value received in the transaction, then you are likely to be dissatisfied with the purchase, and less likely to repeat the transaction in a future point. Thus, put in general terms, where 'Vp' is the purchaser's perception of value and 'P' is the price paid, a successful transaction from the purchaser's perspective occurs when $Vp \geq P$.

From the vendor's perspective, the price that it is willing to charge for its hamburger is dependent on factors such as its production costs, prevailing market and industry conditions, and some profitability level it requires to remain in business in the long term. Profitability in this way can therefore include considerations over and above a mere dollar value, and extend to benefits to the vendor such as increases in brand loyalty and repeat business, less the opportunity costs it bears to achieve this end. In other words, a successful transaction for the vendor occurs when the value it receives (Vv) is equal to, or greater than, the price charged (P). Hence, from the vendor's perspective, a successful transaction occurs when $Vv \geq P$.

With these equations, we can see that both parties have a perception of the value they must derive from the exchange for each to consider it successful. If we were the vendor's marketing director we would now attempt to determine an optimal price point for both parties; that is the point where the transaction produces a level of acceptable value perceived from both the vendor's and the purchaser's perspectives. Such a transaction can be expressed as $Vp \geq P \leq Vv$, where the first term represents the purchaser's perspective (Vp), the second is the vendor's perspective of value (Vv), and the price charged and paid is 'P'. Shown diagrammatically, this exchange can be represented as shown in Figure 1 below.

However, what Figure 1 does not reveal is that the basis on which value is constructed by one party is not usually obvious from the other party's perspective. On the one hand, because only the total price being charged is presented, the purchaser is largely unaware of the costs of producing the hamburger and the predetermined level of profitability that the price reflects. Nor is the purchaser aware of the specific benefits that the vendor perceives will be generated from receipt of the price paid by the purchaser. On the other hand, and perhaps more importantly, from the vendor's perspective the basis on which the purchaser constructs value is not obvious, unless the vendor has bothered to undertake the requisite market research. This presents the vendor with a dilemma in constructing a value proposition and determining an optimal price that is likely to prove acceptable to itself as well as to its target purchasers.

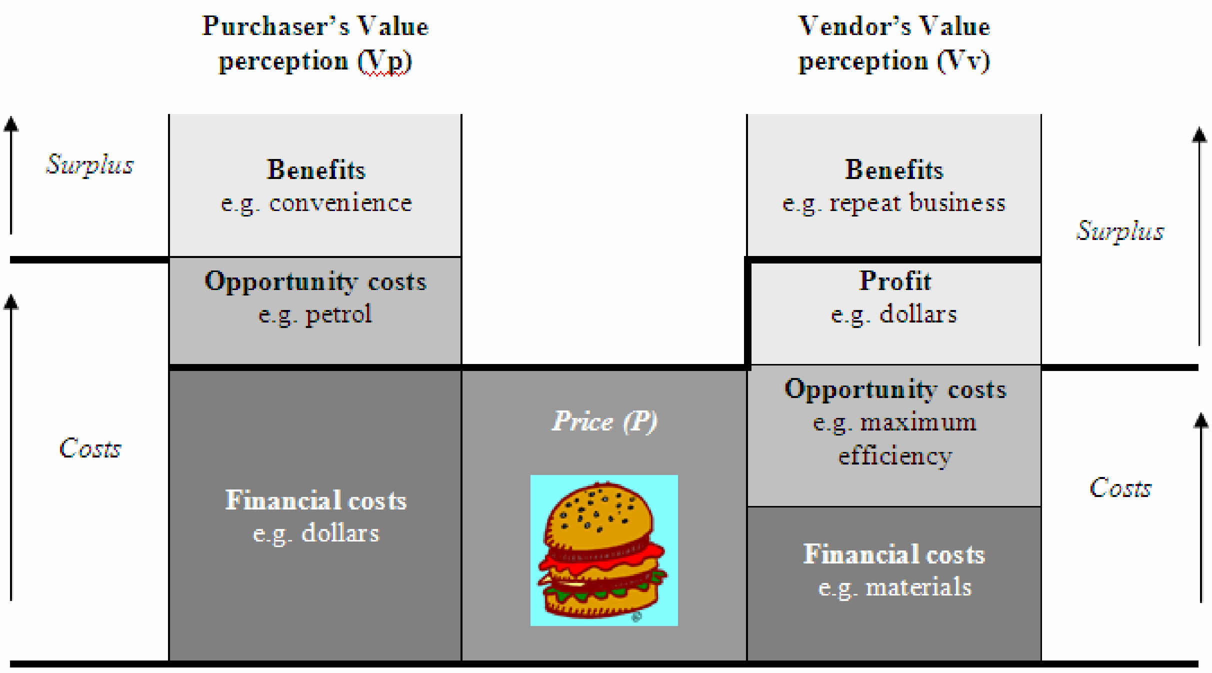

Figure 1: Market exchange for Hamburger

Hopefully with this brief discussion, we have given you a basic idea of how the marketing tenets of value, price and costs can be utilised in understanding a relatively straightforward transaction like the purchase of a hamburger. Let us now consider how the same concepts might be applied in understanding the psychological contract as a value proposition upon which a viable EOC position might be based.

REFRAMING THE PSYCHOLOGICAL CONTRACT

As noted above, a functioning psychological contract is an ongoing social exchange process that reflects the unwritten beliefs held by the employee and the organisation about what each should offer the other, and what each is obligated to provide over and above that stated in the formal employment contract. The exchange that occurs under the psychological contract must produce mutual benefits for it to be perceived by the employee and organisation as having value (expressed as 'Ve' and 'Vo' respectively). However, unlike our hamburger example, where the transaction is based on a non-negotiable price determined and charged by one party and paid by the other party, price (P) operates quite differently under the psychological contract. Firstly, price is negotiated by both parties. Secondly, it represents the point where each party believes the levels of contributions (plus the opportunity costs borne by each party) are balanced and will produce mutual benefits (see Figure 2 below).

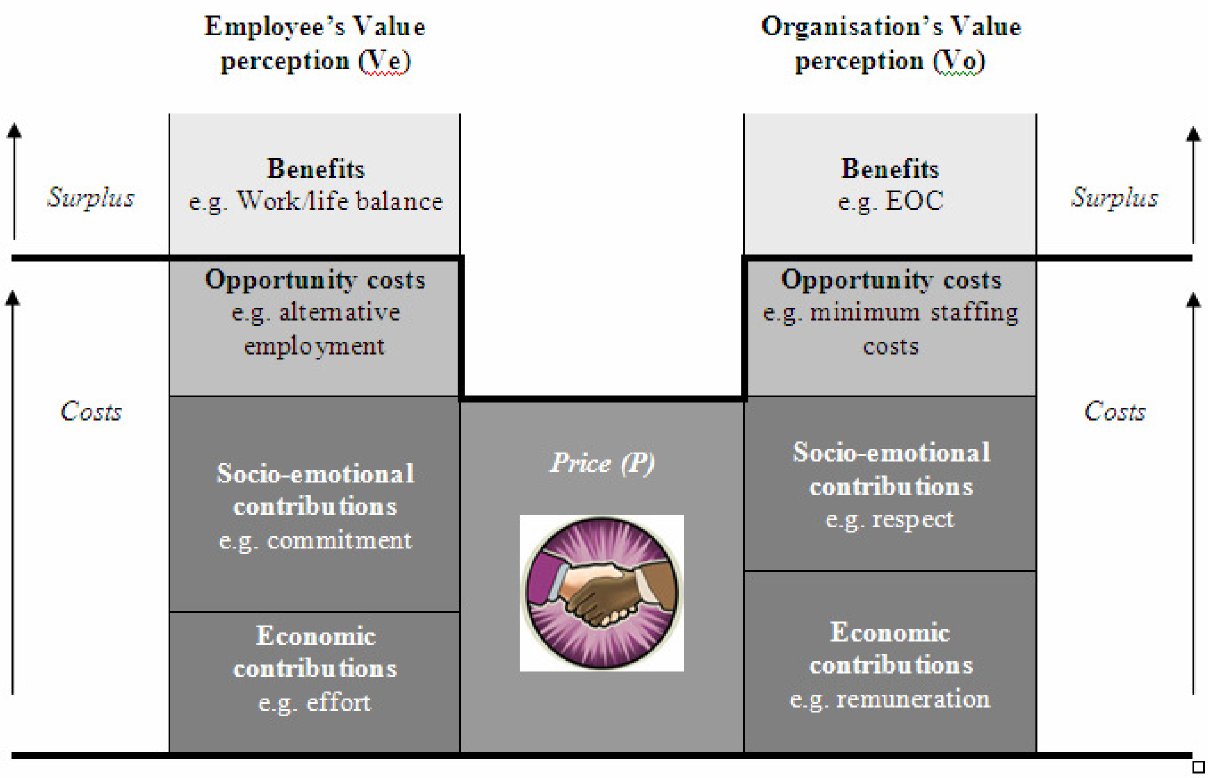

Figure 2: Psychological contract exchange

The contributions by each party take the form of the economic and socio-emotional considerations currently espoused in the psychological contract literature. What this representation adds, however, is a need to recognise the importance of any relevant indirect opportunity costs linked to the employment exchange. For example, important opportunity costs from the employee's perspective might include things such as lost family time due to weekend work commitments, and/or the issues of having an unhappy partner at home as a result. For the organisation, opportunity costs might include such things as the need to forego access to cheaper labour overseas arrangements (such as casual employment contracts and/or outsourcing).

If from the employee's perspective, the exchange creates a surplus (that is, where the benefits they receive from the employment change outweigh the 'price they pay' for their employment), then the psychological contract will be perceived as having value. In other words, from the employee's perspective a functional psychological contract operates when $Ve \geq P$. Similarly, for the organisation, if the exchange creates a surplus (in the form of benefits such as EOC status), then the psychological contract will be perceived by the organisation as having value (Vo). In other words, from the organisation's perspective a functional psychological contract operates when $Vo \geq P$.

Both parties to the psychological contract will have a perception of the value they must derive from the exchange for each to consider it functional. Putting ourselves in the shoes of the organisation's director of human resources, the task now would be to construct a value proposition that was acceptable to the organisation and the employee. Such an outcome can be expressed as $Ve \geq P \leq Vo$. However, this task is made problematic by the fact that elements on one side of the equation are likely to be obscured from the perspective of the other side; that is, as with hamburgers, the basis on which one party constructs value is not always apparent from the other party's perspective. This presents less of a dilemma for the employee as it does for the organisation in a tight labour market, given that it is primarily responsible for determining a value proposition that will be acceptable to the employee and achieve its EOC aim.

The organisation's determination of the value it is willing and able to construct will be driven by several marketplace conditions. For example, in addition to the level of the organisation's contributions, and the opportunity costs associated with an EOC strategy, the organisation's value proposition will also need to reflect prevailing labour market conditions. In general, the more favourable the labour market conditions are to the organisation, the less value the organisation will need to offer in order to attract talented employees. In such conditions, the employee is likely to place greater value on the organisation's contributions, that in turn increases the 'price' the employee is willing to pay (that is, 'the amount they will contribute to the organisation').

Let us assume for the purpose of this discussion, however, that labour market conditions are not favourable to the organisation. In general, the less favourable the labour market conditions are to the organisation, the more value the organisation will need to offer in order to attract and retain talented employees. The organisation therefore, must aim to create a more attractive value proposition, so that the employee perceives their psychological contract to have sufficient value that they would be willing to pay a higher 'price' for in the form of greater contributions. In tight labour market conditions, the employee is likely to have greater choice between prospective employers, and therefore be in the stronger position as a 'price maker' in the exchange. It is in such conditions that the organisation needs to be keenly aware of the value propositions required to overcome the employee's opportunity costs (which can also include alternative employment opportunities). The important point here is that an employer can increase its value proposition to current and potential employees without necessarily incurring higher 'dollar-amount costs' for the organisation. Instead, it can use relevant non-monetary inducements - but these must have some baring or impact on the opportunity costs as constructed by the employee. As with all things in marketing, quality research is required to understand what inducements will be relevant to existing or potential employees throughout the employment exchange.

CONCLUSION

In this paper we have explored the application of marketing concepts and theories to the management of the psychological contract for EOC firms. In doing so, we have sought to highlight the manner in which employees and organisations construct and perceive value relative to the benefits and costs associated with the employment relationship. We suggest that for a psychological contract to be functional, both parties need to have a detailed understanding of the costs they bear (and the 'price' they are willing to pay) when considering their ongoing employment arrangements, or where a new employment opportunity arises. We also suggests that the totality of the costs borne by the parties to an employment relationship are not expressed in the remuneration and benefit terms formally set out in an employment contract. The employee would likely understand that the ongoing costs to the organisation include tangible items such as ongoing training and development, payroll taxation, and intangible outcomes such as a better quality employment relationship and EOC status. However, for the organisation to manage its side of the psychological contract effectively, it needs to present as complete an account of the 'price it is willing to pay' in the employment relationship with the individual, and the price it expects in return through employee contributions. Without such management consideration, the matter of the psychological contract and the benefits that the employer wishes to receive from it are arguably at best left to chance.

In terms of the organisation, a similar warning applies. It would be naive for an organisation to believe that the compensation and benefits stated in its formal employment contract represent the total value it offers its employees. We feel that the organisation (and the psychological contract literature generally) needs to recognise more fully those opportunity costs the employee incurs over and above the currently recognised forms of economic and social emotional contributions. Our discussion of the psychological contract in marketing terms has cast attention on the role that opportunity costs (such as 'having an unhappy partner at home') play in the employee's construction of value. It is also important for organisations to recognise that such opportunity costs will change over an employee's life cycle. The implication being that the value proposition offered by the organisation must similarly change if the psychological contract is to continue to have perceived value to the employee. Unfortunately, the manner in which both parties to the employment relationship construct their total costs, and therefore the basis of their value judgement, is often obscured, which makes the organisation's task difficult. The level of this difficulty is compounded by several other issues needing consideration.

Firstly, unlike the purchase of a hamburger (or other such commercial product or service) the exchange process underpinning the psychological contract is embedded in social relations. Whilst in theory it is possible for psychological contract transactions to mimic commercial transactions and be discrete from social relations, in practical terms there will always be some element of social relations involved in psychological contract exchange (McNeil 2000). Secondly, the transaction entered into with the purchase of a commercial product or service is a narrow, fixed, highly time-compressed form of exchange involving primarily tangible items. In contrast, the psychological contract comprises a pervasive, ongoing, and evolving series of exchanges, based around what in large part are intangible items (Rousseau 1995). Thirdly, the psychological contract is by definition idiosyncratic in nature, meaning that the perception of value might recognise an infinite number of considerations and thus be unique to each employee (Rousseau 1995). On the other hand, the elements that are reflected in the purchaser's perception of value in a commercial transaction are more limited and generalisable across purchasers. Finally, there is the synergistic quality inherent to a functional psychological contract that derives from its inherent mutuality and leads to each party deriving benefits from the reciprocal exchange process that each would not have received without the multiplier effect of the other party's contribution.

In conclusion, this paper set out to apply the application of some key marketing concepts to the psychological contract, and in doing so explore some theoretical and practical issues relating to the psychological contract that have been identified by researchers in the area. In so doing it suggests that the management of human resources in the modern organisation can be conceptualised as involving the management of a series of value propositions to steer the ongoing process of social exchange that occurs between the employer and the organisation. We believe the incorporation of a marketing perspective (in terms of price, value, and costs) along the lines explored in this paper offers real potential for broadening the current understanding of the psychological contract in a manner that might assist management practitioners to manage it more effectively. For this potential to be realised, however, the idiosyncratic and 'organic' nature of the highly complex social exchange process at the heart of the psychological contract needs to be considered more fully and captured more effectively than in the simple equations provided above.

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