

# **How unions impact on the state of the psychological contract to facilitate the adoption of new work practices**

## Abstract

This article draws together empirical research in the psychological contract, trust, unions and NWP literatures to draw conclusions on the way in which unions impact on NWP.

It finds that strong unions that have a co-operative relationship with management prevent and heal breaches in the psychological contract and facilitate a virtuous trust cycle that is important to the implementation of NWP. This has significant implications for theory and practice, particularly in anti-union institutional contexts that are focused on union avoidance, suppression and substitution.

Key Words: Psychological Contract, Unions, Trust, High Performance Work Practices

## Introduction

Traditional work practices (TWP), sometimes referred to as Taylorism and Fordism (the application of Taylorism to mass production manufacturing) achieve cost reduction through mechanistic work design that reduces individual jobs to a set of simple tasks managed through supervisory control. New work practices (NWP) practices, sometimes referred to as High Performance, Involvement and Commitment Work Practices, achieve quality, innovation and flexibility through committed employees who are considered assets, paid high wages and given voice, or the opportunity to have their say and exert some influence (Boxall and Purcell, 2008). NWP have been defined as the synergistic application of practices that enhance employee skills and increase their involvement (Gephart and Van Buren, 1996; Wright and Snell, 1998).

Whilst a link between NWP and organization performance has been established there is little research on why the association exists (Guest, 1997; Luthans and Sommer, 2005). Guest (1998; 2004; 2007) proposes that the construct of the psychological contract, defined as “the perception of both parties to the employment relationship, organization and individual, of the reciprocal promises and obligations implied in that relationship” (Guest and Conway, 2002, p. 22), may a useful contemporary framework for examining this ‘black box’. It is hypothesized that NWP are linked to organization performance through intermediate employee outcomes such as knowledge, skills, abilities, motivation and engagement, or the intellectual and emotional attachment that an employee has to his or her work and the organization (Heger, 2007) that are difficult to achieve because they require employee trust (Appelbaum and Batt, 1995).

It has been proposed that a union presence, when coupled with co-operative industrial relations that allow management to be responsive to union voice, can facilitate the effective adoption of NWP. In particular, there is evidence that unions can encourage management to relinquish self interest and short-term financial outcomes in favour of a long-term, organisation-wide perspective; prevent lay-offs and quitting, which provide a stable workforce suited to reciprocal investment by management and employees; and obtain employee trust, commitment and co-operation (Gill, 2009).

In the absence of any theory on how unions impact on NWP that would form a foundation for empirical research this paper reviews the disparate literature and extant research on unions, psychological contract, trust and NWP to explore the relationship between them and draw conclusions that will inform future research and practice. To do this I will firstly consider how NWP change the contract between management and employees before demonstrating how this new contract requires employee trust.

Secondly, I will consider how NWP breach the new contract and how trust can mitigate contract breaches. Thirdly, I will demonstrate how unions impact on contract breaches.

Finally, I will consider the implications of this review for research and practice.

The scope of this paper has been limited to countries with low context cultures because industrial relations varies based on the institutional context (Jackson and Shuler, 1995). Low context cultures have a transactional 'win lose' approach that puts business before relationships which is in contrast to high context cultures that place great importance on

trust, relationships and long term commitment and engage in relational business transactions (McCarter, Fawcett, and Magnan, 2005; Ueltschy, Ueltschy and Fachninelli, 2007). I draw on literature and research conducted in what has been termed the ‘Anglo’ countries of Australia, New Zealand, UK and the USA (House, 2004).

## **Review**

### NWP change the contract with employees

NWP break down hierarchical relationships between management and employees through: the removal of status distinctions; sharing information; profit sharing; empowerment and team work. Practices such as self-managed teams, decentralization and information sharing, force greater reliance on a commitment based psychological contract (Guest, 2004). This new contract is ‘relational’ with an intrinsic and socio-emotional focus, which reduces social distance and requires organisational citizenship behavior. This contract exceeds transactional and economic based agreements between the employer and employee based on specified job content (Rousseau, 1990; Tipples, 1996). In this ‘new deal’ contract employees identify more closely with the organisation’s goals; feel closer to management; and exhibit an individualistic rather than collectivist orientation to work (D’Art and Turner, 2006). These contracts are also more likely to be open ended, subjective and intuitive (Rousseau, 1990; Rousseau and Parks, 1992) with Tipples (1996) proposing that because the psychological contract is so dynamic it can only be examined as a snap shot.

### NWP require employee trust

TWP are based on the premise of low trust of employees and high trust of managers. This leads to a high control model of work where managers do the thinking and directing and employees obey instructions (Fox, 1974). Whilst TWP inhibit the development of trust they are also able to mitigate the consequences of a low trust environment through control mechanisms (Strickland, 1958). In NWP trust takes the place of supervisory control because direct observation of employees is impractical (Mayer et al., 1995). Trust is defined as the “willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” which is based on the assumption that the other party has the ability, benevolence and integrity to deliver on the action (Mayer et al., 1995, p. 712).

Management will be more likely to implement NWP if they trust employees with information and power that was once their managerial prerogative and employees will be more likely to use their discretionary effort to benefit the organisation if they trust management to fulfill their obligations, including the provision of job security even when NWP introduce efficiencies that may make some positions redundant. It is proposed that NWP challenge the job security specified in traditional contracts when they use ‘employability’, acquired through extensive training and development, as a substitute (Herriot, Manning and Kidd, 1997).

Without trust in management, employees may respond to NWP with restrictive work practices and exit behavior. Resistance from surviving employees is exaggerated because organisations implementing NWP rely more on employees because of their critical importance to business processes and relationships and the lack of available 'slack' in resources (Ramirez, Guy and Beale, 2007). Ironically, workforce stability also makes management more likely to implement NWP because their investment in workforce skills and information sharing will not be wasted by this key resource walking out the door and being made available to competitors. In addition to this, team work is a key component of NWP and continuity of employment is required to provide stable team membership (Clarke and Payne, 1997; Osterman, 2000). Secondly, it has been argued that the 'new deal' contract may disadvantage employees who are required to take on management responsibility. This results in work intensification, poor work/life balance, stress and the elimination of hierarchical career paths which undermines employee trust. In response employee's may retaliate by reducing work quality; increasing absenteeism; declining to go an extra mile; and increasing resignations (Boxall and Purcell, 2008).

#### NWP can violate the new psychological contract

Major psychological contract violations, or minor ones, termed breaches, can undermine the effective adoption of NWP because they destroy trust between managers and employees. Adams (1965) equity theory predicts that employees will adjust their work inputs or effort to match lowered outputs or rewards as a consequence of a contract

breach (Boxall and Purcell, 2008). Empirical evidence supports this proposition, finding that violation of the psychological contract leads to reduction in discretionary behavior, including lower levels of: perceived obligations to the employer; citizenship behavior; civic virtue; engagement in prescribed job roles; commitment; satisfaction; intention to join and remain in the organisation; and unspecified spontaneous behaviors that facilitate organisational effectiveness (Robinson, Kraatz and Rousseau, 1994; Robinson and Rousseau, 1994; Robinson and Morrison, 1995; Robinson, 1996; Tipples and Jones, 1999). In addition to this, employees may undermine or delay the adoption of NWP or return to their traditional behaviors. This latter option is most likely because it is easier for employees to adjust their perceived obligations in response to a contract breach than leave the organisation (Robinson, Kraatz and Rousseau, 1994). For example, Boxall and Purcell (2008) cite the case of Renco in UK consumer electronics sector. This Japanese owned company introduced shop floor participation and cooperative industrial relations to a Greenfield site. After 18 months these practices failed and attitude survey data, collected before and after the change, demonstrated that employees revised their effort in a quid pro quo.

There is evidence that the transition to NWP may increase the likelihood of misunderstanding between employers and employees, resulting in a real or perceived contract violation that may have a negative impact on employee performance and future trust which underpins the psychological contract. Management may violate the psychological contract and destroy employee trust in management if practices such as self-managed teams improve organisational efficiency and result in the elimination of

jobs. Downsizing has been shown to reduce commitment in surviving employees, with research indicating that it can leave them unmotivated, uncommitted, risk adverse and resistant to change (Ryan and Macky, 1998; Littler et al., 1998). Research has found that although employees may initially decide to cooperate in the adoption of NWP, they may respond with resistance or apathy if management violates the psychological contract through lay-offs (Godard, 2004).

NWP also replace the organisational hierarchy with self-managed teams, status reductions and information sharing, resulting in the loss of promotion opportunities. NWP replace a traditional psychological contract, based on the exchange of pay linked to job analysis (or seniority) and long-term job security in return for hard work and loyalty, with a new contract based on pay for performance and flexibility in return for employability based on the acquisition of skills (Rousseau, 1990; Sims, 1994; Robinson, 1996; Herriot et al., 1997).

Contract breaches may also occur because of poor alignment of behaviors between the Human Resource Management function and line management, and within line management ranks, who in a decentralized organisation, negotiate psychological contracts directly with employees on an individual and idiosyncratic basis (Guest, 2004). NWP decentralize decision making and consequently line managers and the HR function may send different messages regarding expectations and obligations (Herriot et al., 1997). For example, the HR department may set policy on work and family leave which is implemented in practice by line managers based on available local resources, producing

inconsistent application of the policy throughout the organisation and a gap between rhetoric and reality.

If the psychological contract is violated trust plays a significant role in the management of the breach. Robinson (1996) proposes that prior trust has an impact on the recognition and interpretation of, and reaction to, perceived breaches with trust being an antecedent, consequent and mitigating factor in contract breaches. Because the psychological contract is subjective and tacit, rather than explicit, employee perceptions define a breach and play an important role in interpreting contract breaches. Robinson's research indicates that employees and employers with high initial trust may use selective attention to overlook or forget actual breaches. Specifically, employees with low trust were more likely to blame their employers for a perceived breach. Consequently, employers who earn the trust of employees early in their relationship are more likely to retain employee trust despite psychological contract breaches. Boxall and Purcell (2008) propose that employees may accept explanations from credible or trustworthy management for a breach. Guest (2007) argues that management plays a significant role in eliciting or destroying trust and destroy trust when a gap between what management promises and delivers emerges.

#### Unions prevent and mitigate contract breaches

It has been argued that a union presence may facilitate the introduction of productive work practices (Freeman and Medoff, 1984). It is proposed that unions make a unique

contribution through independent collective employee voice (Addison, 2005; Ramirez, et al., 2007). Union voice is qualitatively different to employee voice provided by NWP because management sponsored voice is direct and incorporated into the management chain and consequently prohibits individual employees from challenging managerial authority (Freeman and Medoff, 1984). It is independent and allows employees to provide genuine input without fear of reprisals (McLoughlin and Gourlay, 1992). Union voice also provides management with important information from the front line that may otherwise have been hidden by employees for fear that management may 'shoot the messenger'. Empirical research evidence indicates that management sponsored voice is not a substitute for independent union voice and that a union presence is associated with more voice mechanisms including management sponsored voice (Benson, 2000; Haynes, Boxall and Macky, 2005; Kessler and Purcell, 1995; Lloyd, 2001; Machin and Wood, 2005; Millward et al., 1992; Ramirez et al., 2007; Sisson, 1997). Research has also shown that all voice mechanisms are more effective in union organisations (Kessler and Purcell, 1995; Sisson, 1997; Frohlich and Pekruhl, 1996; Lloyd, 2001).

Union voice makes a valuable contribution because union leaders, unlike appointed managers, are independent because they are elected to represent the interests of employees and their career paths are not tied to the organisation. This independence allows them to challenge the logic of management proposals based on a long-term and organisation-wide perspective. This improves organisation decision making processes through different perspectives that result in better quality decisions that are more likely to be accepted by employees and subsequently improve the speed of implementation (Voos,

1987; Freeman and Rogers, 1999; Rubinstein, 2001; Addison, 2005). Union leaders can challenge decisions that are not in the best interest of their membership and can ensure that employees share in the economic success of their organisations (Rubinstein, 2001) which also maintains the integrity of the psychological contract. In particular, unions can use sanctions and/or the threat of sanctions, such as strikes, go slows and stop works, to ensure that management keeps its promises, closing the gap between management rhetoric and reality and preventing psychological contract violations. In particular, union voice promotes workforce stability with empirical research finding that the collective voice of unionism leads to lower probabilities of quitting, longer job tenure and a lower lay-off rate which reduces the costs of training and recruitment and increases productivity (Freeman and Medoff, 1984; Miller and Mulvey, 1993; Delery et al., 2000; Osterman, 2000; Addison, 2005; Ramirez et al., 2007). Employees believe unions will protect their employment security and are more prepared to participate in employee involvement programs when they feel the union will protect their jobs (Levine and Tyson, 1990; Black and Lynch, 2001).

There is substantial empirical support for the positive impact that unions have on the implementation of NWP. Whilst some research has found that NWP such as participation programs and merit pay, are less likely in unionized plants (Lincoln and Kalleberg, 1990; Wood, 1996), the majority of research points to the positive relationship between unions and NWP. In particular, collective bargaining did not decrease labor productivity (Moreton, 1999); a union presence did not affect the positive impact of NWP on productivity gains (Black and Lynch, 2001; Wood and Fenton-O’Creevy, 2005).

Specifically, research has found that many NWP are more likely in unionized organisations including employee share schemes (Gregg and Machin, 1988); share ownership and wider arrangements for employee participation (Marginson, 1992); direct forms of participation (Pil and MacDuffie, 1996); Quality Circles (Armstrong, Marginson, Edwards and Purcell, 1998); participation schemes (Freeman and Rogers, 1999); staff attitude surveys, job rotation, quality circles and organisation consultative committees (Black and Lynch, 2001); and employee involvement (Wood and Fenton-O’Creevy, 2005).

Gill (2009) concludes from a review of empirical research that the strength of unions and the quality of the relationship between unions and management affects the ability of unions to create employee trust in management. Specifically, Bryson (2001) found that strong and effective unions that were supported by management had higher or similar levels of trust in management to non union organisations. He also found that when unions were weak, ineffective or faced management opposition, employees were less trusting of management than when no union was present. However, Bryson, Charlwood, and Forth (2006) found that managers were more likely to respond to direct voice than collective voice, particularly when unions were weak; leading to the paradox that management is more likely to support weak unions even though they are less effective than strong unions.

## Conclusion

In conclusion, the transition to NWP changes the nature of the psychological contract. TWP depend on transactional contracts characterized by supervisory control whilst NWP have relational contracts that depend on employee commitment to use their discretionary behavior in service of the organisation. In the latter case violation of the psychological contract can have a significant impact if employees reduce their positive discretionary behavior on which NWP depend. Paradoxically violation of the psychological contract in organisations that have adopted NWP is more likely, both during the transition to NWP and after their implementation. This is because, despite unitary promises of 'win win' outcomes, NWP can disadvantage employees through work intensification and downsizing due to new efficiencies. This can result in restrictive work practices and/or exit behavior which have a negative impact on the effective adoption of NWP.

Trust is at the heart of the 'new' psychological contract and is required for the effective adoption of NWP. Employers who trust employees will be more likely to devolve the power required to implement practices such as decentralization, self-managed teams and information sharing. Employees who trust management will be less threatened by, and more committed to, NWP. When there is trust employees are more willing to enter into a 'new' relational contract. Trust is also important to the management of the psychological contract which, because of its fluid and idiosyncratic nature, may result in contract breaches. In addition to this, employee perceptions define contract breaches and high

initial trust results in selective attention that may lead employees to overlook actual breaches. Managers are important to creating and destroying trust and can work against their organisation's best interests by pursuing short-term outcomes which violate the psychological contract and destroy trust.

Strong unions that have a co-operative, rather than adversarial relationship, with management can facilitate the successful adoption of NWP by preventing and mitigating contract breaches. A strong union collective voice, when coupled with a co-operative relationship between unions and management, maintains the integrity of the psychological contract by closing the gap between management rhetoric and reality which facilitates employee trust in management. Through the development of trust unions also mitigate the contract breaches that NWP create. In particular, higher levels of trust 'soften the blow' of contract breaches by managing employee perceptions.

Employees who trust management will be less likely to perceive a breach and are more likely to forgive and forget breaches they perceive, with implications for future behavior and trust.

Unions also increase employment security which means employees will be more likely to support the adoption of NWP knowing that they can improve work processes without losing their jobs and management will be more likely to devolve power to a stable workforce. This facilitates a virtuous cycle that increases trust and commitment between management and employees which is required for the ongoing success of NWP. This trust and commitment ensures that employees do not engage in 'quit' behaviors,

including psychological and actual absence from their work. They also are less likely to resign from the organisation and take their newly acquired human capital with them, leaving a significant hole in an organisation that has become dependent on them.

## **Implications for Research and Practice**

This article brings together empirical research in the psychological contract, trust, union and NWP literatures to draw conclusions on the way in which unions impact on NWP with significant implications for research and practice.

From a theoretical perspective this article contributes to the body of knowledge in several ways. It adds insight into how unions impact on NWP and how NWP impact on organisational performance which is acknowledged as a substantial gap in the literature. It opens up several avenues for future empirical research to test the relationships between unions, NWP, trust and the psychological contract. The relationship between NWP and trust could be explored by testing whether high levels of trust between management and employees facilitate the effective adoption of NWP and examining the relationship between trust and the psychological contract in organisations with NWP. The relationship between unions and NWP could be tested by examining whether organisations with a strong union presence coupled with co-operative industrial relations are more likely to effectively adopt NWP than no union organisations or organisations with a union presence that is weak and/or coupled with adversarial industrial relations. In addition to this, how unions facilitate the adoption of NWP could be examined. In particular, given evidence of the relationship between unions and workforce stability and

between workforce stability and NWP, it would be valuable to examine whether organisations with a strong union presence coupled with a cooperative relationship between unions and management have fewer perceived psychological contract breaches and higher levels of trust between management and employees. The Workforce Employee Relations Survey (WERS) provides longitudinal and multi source data collected in the United Kingdom and presents an opportunity to find answers to these questions. However, union research is heavily impacted by the institutional context, and there is a dearth of workplace data in Australia and New Zealand. This paper presents a rationale for investment in data collection in Australasia that could be used for research which could make a contribution to improved workplace productivity.

This article also has many implications for government, management and union policy and practice. Evidence of union decline is substantive in the United Kingdom, Australia and New Zealand since the 1970s (OECD, 2009). There is also recent evidence from Britain to indicate that the quality of the relationship between unions and management is poor, with low trust between management and union representatives (Kersley et al., 2006). Whilst Kochan et al. (1986) have cited demographic causes of union decline an anti-union attitude has also been observed. It has been proposed that, despite contrary evidence, management and government have considered unions a threat to workplace flexibility, timely response and productivity and have responded with union avoidance, suppression and substitution (Chen, 2007; Kochan, Katz and McKersie, 1986). There is also a notion that unions are obsolete with some commentators noting that the increasing popularity of NWP is coupled with union decline and proposing that NWP are a

substitute for unions (Kochan, 1980; Verma & Kochan, 1985; Kochan et al., 1986; Keenoy, 1991; Turnbull, 1992; Jacoby, 1997; Kaufman, 1997;).

Contrary to recent evidence of the Australasian belief that unions are a threat to productivity there is anecdotal evidence that the suppression of unions may be ideologically driven. In 2006 the Australian government introduced anti-union 'WorkChoices' legislation proposing that this would create jobs and improve productivity despite evidence from New Zealand indicating that similar laws introduced in the Employment Contract Act from 1991-1999 were coupled with a substantial drop in OECD productivity rankings (Ogden, 2007). This supports Guest's (2004) proposition that NWP have been accompanied by growth in American-influenced individualism rather than collective representation.

Given the arguments presented in this paper evidence of union decline, substitution and suppression should be cause for concern given the effective role that unions can play in the adoption of productive work practices. It also makes a strong case for the dissemination of research in practitioner forums. However, much remains to be done to explore the relationship between unions and productivity and inform unions, government and management so that they can implement evidence based policy and practice.

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