

Strategic Human Resource Management

Lecture 11

Strategies for Developing Employee Relationship

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Lecture learning outcomes

At the end of this lecture, you will be able to:

- i. Explain the concept of employment relationship.
- ii. Evaluate the changes in employment relationship.

10.1. Introduction

Employment relationship between managements and employees is a factor that can make a significant impact on the degree to which organizational effectiveness is achieved. This relationship is subject to continuous day to day development, negotiation and change.

10.2. Introduction Employment relationship

The employment relationship is a foundational element within any organization, acting as a critical determinant of overall organizational effectiveness. This relationship is not static; rather, it is a dynamic interplay that is continuously developed, negotiated, and reshaped through daily interactions between management and employees (Kessler & Undy, 1996).

The relationship can manifest in both formal agreements, such as written contracts, and informal understandings, often conceptualized as the **psychological contract**. This informal contract encompasses the mutual but often unspoken expectations and assumptions held by employers and employees regarding what each party is obligated to provide and deliver.

Employment relationship between managements and employees is a factor that can make a

significant impact on the degree to which organizational effectiveness is achieved. This relationship is subject to continuous day to day development, negotiation and change. Employment relationship can also be expressed in terms of a psychological contract. It consists of a unique combination of beliefs held by an individual and his or her employer about what they expect of one another.

This relationship operates on two primary dimensions:

- **Individual Dimension:** Focused on the direct relationship between an individual employee and their employer, governed by a personal contract and set of expectations.
- **Collective Dimension:** Involves the relationships between management and collective bodies like trade unions, staff associations, or joint consultative committees such as works councils.

A fundamental way to understand the employment relationship is through the lens of contractual types. Building on the lecture's reference to MacNeil (1985) and Wade-Benzoni (1994), the contracts can be categorized as:

1. **Transactional Contracts:** These are characterized by specific, well-defined terms of exchange, often of a financial nature. They are typically limited in duration and have clear, stipulated performance requirements. The focus is on the short-term economic exchange.
2. **Relational Contracts:** These are more abstract and open-ended. They are less about specific tasks and more about the overall membership within the organization, emphasizing long-term commitment, trust, and mutual investment. The stability and health of the relational contract are crucial for fostering employee loyalty and organizational citizenship behaviours (Cullinane & Dundon, 2014).

10.3. Evolving Changes in the employment relationship

The landscape of employment relations has undergone significant transformation. The changes noted by Gallie et al. (1998) remain relevant and have been accelerated by recent trends. Key shifts include:

- **Rise of HRM and Individualization:** A continued move towards HRM principles that emphasize direct communication with individual employees, performance-based rewards, and a de-emphasis on traditional collective bargaining in many sectors.
- **Focus on Skill and Engagement:** There is a persistent recognition that higher skill levels are linked to greater work involvement and intrinsic motivation. Investing in upskilling is not just an operational necessity but a key strategy for improving the quality of the employee experience.
- **The Centrality of Commitment:** The link between high organizational commitment and positive outcomes like reduced absenteeism and lower labour turnover remains a core tenet of SHRM. Organizations strive to foster this commitment through various engagement and retention strategies.

Impact of Technology and Remote Work: A contemporary change not explicitly mentioned in the lecture is the impact of digitalization and the rise of hybrid/remote work models. These developments create new challenges for maintaining relational contracts, ensuring consistent communication, and preserving organizational culture (Wang et al., 2020).

Gallie et al (1998) noted the following changes in the employment relationship.

- New forms of management on HRM principles and emphasizes on individual contracts rather than collective bargaining.
- Supervisory activity was still important
- Integrative forms of management policy were centered on non-manual employees.
- Majority of employees continue to attach a high level of importance to the intrinsically motivating aspects of work.
- The higher the level of skill, the more people were involved with their work.
- The raising of skill levels are key factors in improving the quality of work experience.
- High levels of commitment to the organization can reduce absenteeism and labour turnover.

10.4. The Psychological Contract: The Heart of the Employment Relationship

The psychological contract provides a robust framework for understanding the unwritten, subjective aspects of the employment relationship. As highlighted by Guest et al. (1996) in the lecture, it comprises the assumptions, expectations, promises, and mutual obligations that guide behaviour at work. It is inherently dynamic, evolving as employees gain experience, organizational conditions shift, and individuals reassess their expectations.

In essence, the psychological contract answers two fundamental questions for the employee:

1. What can I reasonably expect from the organization?
2. What should I reasonably be expected to contribute in return?

A positive psychological contract is strongly correlated with beneficial organizational outcomes, including higher commitment, increased job satisfaction, and more harmonious employment relations. It amplifies the positive effects of progressive Human Resource Management (HRM) practices (Guest, 2016).

Employee Expectations from the Psychological Contract:

From the employee's perspective, the contract covers areas such as:

- **Trust:** Belief that management will honor its promises.
- **Fair Treatment:** Being treated with equity, fairness, and consistency.
- **Job Security:** A degree of assurance regarding continued employment.
- **Competence Utilization:** Opportunities to use and demonstrate skills.
- **Career Development:** Expectations for career progression and skill enhancement.
- **Voice and Influence:** Having a degree of involvement in decisions that affect them.

Employer Expectations from the Psychological Contract:

From the organization's standpoint, the contract seeks to secure:

- **Commitment:** Employee dedication to organizational goals.
- **Competence:** Application of necessary skills and knowledge.
- **Effort:** Willingness to expend energy and work diligently.
- **Compliance:** Adherence to organizational rules and policies.
- **Loyalty:** A sense of allegiance and support for the organization.

In today's volatile business environment, the psychological contract is often tested. Trends like downsizing, restructuring, and the gig economy have led to a perceived shift from relational to more transactional contracts, which can erode trust and commitment if not managed carefully (Griep & Vantilborgh, 2018).

According to Guest et al (1996)

“ A positive psychological contract is worth taking seriously because it is strongly linked to higher commitment to the organization, higher employee satisfaction and better employment relations. It also reinforces the benefits of pursuing a set of progressive HRM practices.

- Emphases is on the importance of a high-involvement climate and suggest HRM strategies for developing the contract, such as the provision of opportunities for learning, training and development, focus on job security, promotion and careers, minimizing status differentials, fair reward systems and comprehensive communication and involvement process.

The following are some of the practices that can be incorporated in the strategy.

- 1) During recruitment interviews- presenting the unfavorable as well as the favourable aspects of a job.
- 2) Induction programmes- communicating to new starters the organization's personnel policies and procedures and its core values, the expected standards of performance etc.
- 3) By issuing and updating employee handbooks that reinforces the messages in induction programmes.
- 4) By encouraging the development of performance management processes that performance expectation are agreed and reviewed regularly.
- 5) By using training and management development programmes (encourage manager and team leader training).
- 6) Provide a means of two-way communications (maximum amount of contact between managers, team leaders and their team members)
- 7) Encouraging transparency i.e. all matters which affects them, employees know

what is happening, why it is happening and the impact it will make on their employment fairly and consistently

- 8) By developing HR procedures covering grievance handling, discipline, equal opportunities promotion and redundancy and ensuring that they are implemented fairly and consistently.
- 9) By ensuring that the reward system is developed and managed to achieve equity, fairness and consistency in all aspects of pay and benefits
- 10) By advising on employee relations procedures, processes and issues that further good collective relationship.

10.5 HRM Strategies for Developing a Positive Employment Relationship

To cultivate a positive psychological contract and a strong employment relationship, organizations must implement deliberate and consistent HR strategies. The lecture outlines several key practices, which can be framed within a modern high-involvement HRM approach.

1. Realistic Job Previews (RJPs) during Recruitment:

During the recruitment process, presenting a balanced view of the job—including both its challenges and rewards—helps to align candidate expectations with reality. This initial honesty prevents early disillusionment and lays a foundation for trust, reducing early turnover (Kroustalis & Meade, 2021).

2. Comprehensive Onboarding and Induction:

Effective induction programs are critical for socializing new hires. They should communicate the organization's core values, culture, policies, and performance standards clearly. This process helps to embed the company's principles from day one and clarifies the terms of the psychological contract.

3. Dynamic Performance Management Processes:

Moving beyond annual appraisals, modern performance management involves continuous feedback, regular check-ins, and collaboratively set goals. When performance expectations are agreed upon and reviewed frequently, it reinforces fairness, provides clarity, and supports employee development (Pulakos et al., 2019).

4. Investment in Learning and Development:

Providing ample opportunities for training, upskilling, and management development is a

powerful signal of organizational investment. Training for managers and team leaders is particularly crucial, as they are the primary custodians of the psychological contract for their teams.

5. Fostering Two-Way Communication:

Creating channels for open, transparent, and continuous dialogue between management and employees is essential. This can include regular team meetings, employee surveys, suggestion schemes, and an "open-door" policy. Maximizing contact and interaction builds trust and ensures that employee voices are heard.

6. Ensuring Transparency and Procedural Justice:

Employees need to understand the "why" behind decisions that affect them. Transparency about organizational changes, performance metrics, and strategic direction fosters a sense of inclusion and fairness. When employees perceive procedures as fair, they are more likely to accept outcomes, even unfavorable ones (Shan et al., 2019).

7. Fair Implementation of HR Policies:

Developing and consistently applying HR procedures for grievances, discipline, promotion, and redundancy is non-negotiable for maintaining trust. Inconsistency in policy application is one of the fastest ways to breach the psychological contract and create perceptions of inequity.

8. Equitable Reward Systems:

The reward system must be perceived as fair, equitable, and consistent. This includes not only base pay but also benefits, bonuses, and non-monetary recognition. A well-managed reward system demonstrates that the organization values and equitably compensates employee contributions.

9. Maintaining Positive Collective Relations:

Even in an era of individualization, maintaining good relationships with trade unions or other collective bodies is vital. Advising on and implementing fair employee relations procedures helps to manage the collective dimension of the employment relationship effectively.

10.6 Summary and Conclusion

The employment relationship is a complex, multi-faceted dynamic central to achieving organizational effectiveness. It is best understood through both its formal contractual elements and its informal, psychological underpinnings. The **psychological contract**—a set of unwritten mutual expectations—serves as the bedrock of this relationship, influencing employee attitudes, behaviours, and overall organizational performance.

The nature of this relationship has evolved, with a noted shift towards more individualized HRM practices, a heightened focus on skill development and employee engagement, and new challenges posed by technological and work-model changes. Despite these shifts, the fundamental goal remains: to foster a positive, high-trust relationship.

Strategic HRM plays a pivotal role in this endeavor. By implementing integrated practices such as realistic recruitment, transparent communication, continuous performance management, fair policy implementation, and robust investment in development, organizations can actively build and maintain a positive psychological contract. In doing so, they cultivate a workforce that is more committed, competent, and motivated, thereby driving sustainable organizational success in an increasingly competitive and changing environment. Ultimately, viewing employees as partners in a relational, rather than purely transactional, contract is the cornerstone of a mature and effective human resource strategy.

10.7 Questions and Answers (Q&A)

Q1: In an era of frequent corporate restructuring and gig work, is the traditional relational psychological contract still realistic, or are we moving towards a purely transactional model?

A1: While there is undeniable pressure moving the needle towards transactional contracts due to economic volatility and the rise of non-standard work, a purely transactional model is not sustainable for most organizations seeking long-term success. The relational contract is evolving, not disappearing. Employees still seek purpose, development, and fair treatment. Modern organizations are finding a "hybrid" approach, offering project-based work (transactional) while also investing in learning platforms, fostering inclusive cultures, and providing opportunities for internal mobility to retain core talent (relational). The focus is on

building "employability" rather than guaranteed lifetime employment, which can be a new form of a relational contract based on mutual growth (Griep & Vantilborgh, 2018).

Q2: How can line managers and team leaders, who are not HR professionals, be effectively equipped to manage the psychological contract with their team members?

A2: Line managers are the "face" of the organization to employees and are critical in upholding the psychological contract. Equipping them requires:

- **Targeted Training:** Provide specific training on emotional intelligence, communication skills, giving constructive feedback, and conducting effective one-on-one meetings.
- **Clarity and Resources:** Ensure managers fully understand HR policies and have the resources and authority to address team issues promptly.
- **Performance Metrics:** Include people-management skills and team engagement scores as key performance indicators (KPIs) in their own performance reviews.
- **HR Support:** Create a strong partnership where HR coaches and supports managers in handling people-related challenges, rather than just acting as a policing function.

Q3: The lecture mentions "minimizing status differentials" as a strategy. What are some practical ways an organization can do this?

A3: Minimizing status differentials helps to create a more collaborative and inclusive culture. Practical steps include:

- **Physical Environment:** Implementing open-plan offices or common spaces where interaction across hierarchies is encouraged.
- **Communication Practices:** Using universal titles (e.g., first names for everyone), having all-hands meetings where any employee can ask questions to senior leadership, and ensuring communication from leadership is transparent and regular.
- **Policy Uniformity:** Applying the same rules to all (e.g., the same leave policy, parking arrangements, or dress code for everyone from entry-level to C-suite).
- **Recognition Systems:** Creating peer-to-peer recognition programs that allow employees at all levels to acknowledge each other's contributions, decentralizing recognition from just top-down.

Q4: With the increase in remote and hybrid work, which of the listed HR strategies become most critical for maintaining a strong employment relationship?

A4: In a remote/hybrid context, certain strategies become paramount:

- **Transparency (Strategy #7):** Over-communication about company goals, changes, and decisions is vital to combat the information vacuum that remote workers can experience.
- **Two-Way Communication (Strategy #6):** Intentional efforts must be made to foster connection. This includes regular video check-ins, virtual coffee chats, and using collaborative digital platforms to maintain a sense of team.
- **Performance Management (Strategy #4):** A focus on clear, output-based goals and regular feedback is more effective than monitoring activity. Trusting employees to manage their work is key.
- **Fair Implementation of HR Policies (Strategy #8):** Consistency in applying policies to both remote and in-office staff is crucial to prevent perceptions of a two-tier system and ensure equity (Wang et al., 2020).

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