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**Proceedings Paper:**

Burgess, N.J., Richmond, J. [orcid.org/0000-0002-8854-5958](https://orcid.org/0000-0002-8854-5958) and Kiefer, T. (2020) Psychological contracting making obligations explicit to support a transformative change partnership. In: Atinc, G., (ed.) *Academy of Management Proceedings. Academy of Management Annual Meeting 20/20: Broadening our Sight, 07-11 Aug 2020, Virtual conference.* Academy of Management .

<https://doi.org/10.5465/ambpp.2020.148>

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# PSYCHOLOGICAL CONTRACTING: MAKING OBLIGATIONS EXPLICIT TO SUPPORT A TRANSFORMATIVE CHANGE PARTNERSHIP

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## ABSTRACT

We examine the creation and maintenance of an explicit psychological contract (PC) designed to facilitate a new relationship between five hospitals and their regulator. Our study illustrates how an explicit PC facilitates transition from a command and control relationship to one that fosters partnership working. Drawing on Rousseau's (2018) dynamic phase model of the PC, we describe the process of PC creation and maintenance over time. Drawing upon over four years of data we illustrate the critical role of PC 'breach' in triggering sensemaking and sensegiving activity, reinforcing the status quo, and maintaining the explicit PC.

## INTRODUCTION

A psychological contract (hereafter PC) is a cognitive schema, which relates to the implicit exchange agreement an individual has between themselves and their employer (Rousseau, 1995, 2001). This schema guides individuals' perceptions regarding the 'employee-employer' relationship (Fiske & Taylor, 1984), and is influenced by a wide range of factors, including social norms, organizational culture, employer policies, an individual's interactions with others in the workplace, and the personal characteristics of individuals (Roehling & Boswell, 2004). Unlike a legal contract, the PC is based on subjective expectations of the employer-employee contract and is therefore often implicit and unwritten. The implicit nature of the contract means that either party may be unaware of the perceived obligations, making it difficult for both organizations and employees to live up to expectations and uphold perceived promises. Thereby a PC breach (a perception of either party that a promise or obligation has been broken) can be difficult to avoid. Since PC breaches can have a host of negative consequences, such as mistrust and counterproductive behaviors (e.g. Robinson & Morrison, 2000), some authors have suggested that the PC can and should be made explicit. Creating an explicit PC presents an opportunity to co-design and affirm reciprocal obligations of the employer and employee relationship, yet very little research has been conducted to understand the processes and outcomes of explicit psychological contracting.

In this paper we adopt Rousseau et al's (2018) dynamic phase model of psychological contract (PC) processes to describe the creation and maintenance of an explicit PC. The PC was designed to guide a partnership between five UK hospitals and their regulator as part of a national initiative to transform the quality and efficiency of care delivery in the English NHS.

The partnership signalled a radical departure from the traditional regulatory approach of performance management to a new supportive and collaborative way of working.

## THE PSYCHOLOGICAL CONTRACT

Calls for conceptual clarity have led Rousseau and colleagues to define the construct of the PC as dynamic and social, evolving over time through distinct phases of creation, maintenance, renegotiation and repair. We draw upon the work of Rousseau et al., (2018) to briefly outline each of these phases.

*PC Creation.* The creation phase represents the early stages of an employment arrangement, whereby individuals ‘become part of the organization’s pattern of activities’ (ibid. p.1085). The authors explain that individuals use this time to engage in ‘effortful cognitive processing, incorporating both their prior beliefs and newly acquired organizational information to inform their PC schema’; the PC is deemed ‘stable’ when cognitive effort ‘tapers off’ (pp.1085-1086).

*Transition to Maintenance.* Once the PC schema is sufficiently established, individuals transition to the maintenance phase. The degree of cognitive effort required is lower and the fulfilment of obligations is necessary for maintenance to continue.

*Renegotiation and Repair.* The maintenance phase is said to be disrupted when a discrepancy to the PC is experienced, triggering more intense cognitive processing. Disruptions can be positively valenced (inducing high excitement for example) or negatively valenced (inducing feelings of violation). Positively valenced disruptions may necessitate a renegotiation of a PC (for example, to accommodate an employee’s increased responsibilities aligned with a promotion); negatively valenced disruptions necessitate activity to produce a ‘repair’ in an effort to ‘reduce the negative affect and re-establish a goal consistent PC’ (Rousseau et al, p.1091).

### Disruption and repair: the role of sensemaking and sensegiving

*Sensemaking* concerns the ways that individuals understand, interpret, and create sense of lived experiences; *sensegiving* is a mechanism that describes an attempt to influence the sensemaking processes of others (Maitlis & Lawrence, 2007). Unexpected events can necessitate active sensemaking that may result in modifications to an individual’s existing cognitive schema (Louis & Sutton, 1991; Weick, 1995). Sensemaking is most likely to occur when something unexpected happens, for example when an individual feels another party has not met their obligations, creating a disruption to the PC. Hence, disruption can be viewed as an interruption to the ongoing fulfilment of obligations, prompting sensemaking, and subsequently influencing future behaviour (Weick, 1995). However, certain individuals, such as top managers, may attempt to influence how sensemakers interpret the disruption. This effort to assist and guide understanding in the aftermath of a disruption is known as *sensegiving*, which offers a valuable avenue for understanding the dynamics of sensemaking in relation to PC disruption (Diehl and Coyle-Shapiro, 2019).

### Why make the psychological contract explicit?

Making expectations and promises explicit allows each party to engage in a transparent process of negotiation, to jointly agree and acknowledge the expected behaviours and obligations of both the employer and the employee. An expected benefit of explicit contracting relates to the visibility of the PC, enabling employer and employee to rapidly identify PC fulfillment, disruptions to maintenance, triggering efforts towards repair, maintaining the stability of the PC.

## **DATA: CREATION AND MAINTAINANCE OF AN EXPLICIT PC TO GUIDE A TRANSFORMATIONAL CHANGE PARTNERSHIP**

This study draws upon a unique researcher-practitioner collaboration that has enabled extensive data collection pertaining to creation of an explicit PC and its maintenance across a four-year period to guide a partnership between five NHS hospital trusts and their regulator. The goal of the partnership was to develop a sustainable culture of continuous improvement capability within each of the five hospital trusts, and to spread learning from this partnership across the whole of the NHS.

Our data comprises a substantial archive of documentary data across 56 months to date, including all minutes of partnership meetings (July 2015-February 2020), letters, and memo's between key stakeholders. This data is complimented by 53 hours of meeting observations (between February 2018 and February 2020) producing more than 500 pages of field notes, and 52 semi-structured interviews. Our interviews were conducted with key stakeholders of the partnership including all five CEOs and senior representatives of the regulator, many of whom were interviewed twice during 2018 and 2019.

### **Moving from regulation to collaboration: a new deal**

Regulation has been used in almost every political setting around the world as a mechanism to enforce compliance with national targets and directives (Diefenbach, 2009), yet it has been heavily criticised for inducing management by fear (Berwick, 2013). The rationale for creating an explicit PC in this empirical setting was to forge a 'partnership' relationship between the five hospital trusts and their healthcare regulator, one that engenders a supportive and collaborative approach to service improvement.

### **PC CREATION: A 'COMPACT'**

The explicit contracting process began in September 2015. The partnership had contracted a US consultancy to facilitate the creation of an explicit psychological contract known as a 'compact' (see Kornacki & Silversin, 2015). In their introductory memo the consultancy outlined a clear objective of the compact to facilitate partnership working through setting explicit expectations that once written, become *'the rules of engagement'*. To kick start this process, the five hospital CEOs were asked to "*think about the positive impact clear expectation can play in your own work life and how unclear or changed expectations have gotten in the way of success.*" (Consultancy Memorandum, September 9<sup>th</sup>, 2015).

### **Setting ideal partnership behaviours**

What followed was a facilitated development session over one and a half days led by the US consultancy. The topics of discussion ranged from questions over how leadership stability (within each of the five hospital trusts) would be handled, to how the partnership would build trusting relationships, and attempts to describe the cultural behaviours they aspired too. One CEO describes their perception of a genuine aspiration to try something new:

“There was a real commitment from [the regulator] to try this experiment of working with five [organizations] in a constructive partnership ... as the compact took its shape and form it raised a number of quite interesting questions: What if one of our organizations gets into difficulty? What if one of the [organizations] is doing brilliantly and [the regulator] wants to lift that CEO out and put them in a failing [organization]? *Those scenarios are common in the NHS and we worked through and I think the [regulatory] people gave a commitment that, even if it was difficult, they would adhere to the responsibilities that we agreed in the compact.*” - (CEO E, *emphasis added*)

The text highlights the important role of the creation phase in facilitating difficult but necessary conversations concerning for example, high levels of leadership mobility in the NHS that can undermine the goals of the partnership. The quote above and below emphasizes the radical departure of this ‘new deal’ from the more traditional regulator-service provider relationship.

“Regulators are usually regulators; they’re usually telling you you’re not doing something very well. But actually, this is different, and it feels different, certainly in my experience... So [in creating a compact] we’ve created a different relationship.” - (CEO A)

Following the development session, a ‘drafting committee’ (two representatives from the regulator and two of the CEOs) were tasked with co-producing the first iteration of a compact. On the 22<sup>nd</sup> of October 2015 this draft was debated and discussed at a second facilitated development session with a broader group including additional senior management representation, and board members, from the five trusts. By December 2015 it was agreed that no further edits were required to the written document outlining the expected behaviours of each party; the group agreed to continue to discuss and review the compact on a monthly basis for 12 months, when final amendments would be agreed. Broad categories of partner responsibilities outlined in the compact include: creating the right environment; fostering excellence; listening, communication and influencing; focus on patients; focus on staff; and leadership.

## TRANSITION TO MAINTENANCE

In November 2016, members of the partnership agreed that the compact would feature on the agenda of their monthly partnership meeting, “*to monitor its use in accordance with the agreements and reflect how it is being adhered to*” (Meeting Minutes, November 2016). The monthly meeting is a six-hour meeting exclusive to the five CEO’s and senior representatives of the regulator. Observations and document analysis of the minutes of each TGB identified the role of the compact in guiding the relationship, demonstrating behaviours set out in the relationship, and consistently reflecting upon the group’s adherence to the explicit promises of each party

inscribed in the compact. We observed how this ritual reflection upon adherence to the compact signaled ongoing ‘fulfilment’.

### **Fulfilment, disruption and repair**

Demonstrating fulfilment to obligations and behaviours set out in the compact was important for building trust, affirming the shared goals of the partnership, and maintaining the compact. Across our observations we noted many examples of positive behaviours that clearly aligned to the expectations set out in the compact. We also observed members of the regulator ‘calling out’ instances where their own behaviours had not lived up to the expectations of the compact. We were told of these plans during an interview shortly before the event:

“[CEO D] at the last minute was unable to speak at a conference [...] because he was called to an urgent discussion by [regulator representatives] from a different part of the organization. I’m not judging whether that was the right call from us, but it was something I will *call out* at the TGB in May [2018]. You know, one of the things that we said we’d do is try to be consistent and coordinated as a [regulator] and that was an occasion where we didn’t...Nevertheless, we’ve used the compact to surface that and I think what trusts appreciate is not that we change that decision, but just the acknowledgement, I think, is a step in the right direction.” - (Regulator Representative B)

‘Calling out’ a breach related to one’s own behaviour was employed as a mechanism for maintaining the status quo. The regulator representative felt that calling out the incident was ‘appreciated’ by the CEOs. The act was a deliberate signal of the regulator’s intention to uphold the compact, while acknowledging “*we still have some distance to go*”. We recorded the CEO’s nodding in agreement during the ‘calling out’ of the breach, while also offering their support (as friends and colleagues) to the affected CEO. This premeditated action meant the incident was not dwelled upon and the conversation quickly resumed a more collaborative tone. In this incident the compact was used as a tool to deflect from the breach and maintain the status quo of the relationship. It also reinforced a sense of mutuality through processes of sensemaking and sensegiving: “*we try to be consistent...but on this occasion we didn’t*” followed by reminding partners that they were all working towards the same goal, and reflecting that there will be “bumps in the road” [observational notes]. During interview, the CEO concerned was also observed to engage in sensemaking and sensegiving, describing the incident as a result of a “clash” of regulatory objectives and pressures. Giving sense in this way allowed the CEO to restore his own faith in the compact and continue investment in the partnership:

“They are our regulator. They have immense pressure nationally in terms of performance, so sometimes the ‘two worlds collide’ in terms of the performance that’s needed and this [transformative change] methodology, they clash.” - (CEO D)

In July 2018 we recorded a severe, negatively valenced, disruption to the compact. In this example CEO E suddenly stepped down from his position as CEO amidst significant organizational performance difficulty. Before respondents could be asked how they felt about the situation, they began to tell us. In each case we were told they had perceived the incident as a ‘violation’ of the compact and felt worried for the continued sustainability and integrity of the

compact: *“it’s undermined our confidence”* (CEO B). Both CEOs B and D made direct reference to the compact, suggesting the regulator had failed to live up to its explicit obligations regarding maintaining leadership stability throughout the duration of the partnership.

Following the CEO E’s departure, a representative of the regulator engaged an active process of sensemaking and sensegiving, through which they implored the partnership to take collective responsibility for the event, appealing to the remaining CEO’s: *“what could we have done differently?”* In doing so, she had shaped the disruption as something that all participants had failed to act upon and as a result, successfully restored the status quo.

“What we [regulator representative and CEOs] didn’t do, was enact the beliefs in the compact where we set out stable leadership. We are constantly learning, but why didn’t we help address the problem... We need to internalize this learning and if we are passing it on to others, to say ‘full stop it’s high risk, CEO is off ill, the chairman changed, on and on it went’, ... what did we do?” (Senior Regulator Representative C)

## DISCUSSION & CONCLUSION

We explored how members of a transformational change partnership created an explicit PC, the transition from creation to maintenance, and how PC disruption triggers sensemaking and sensegiving processes to repair the disruption and maintain a stable PC. Adopting a PC lens extends our understanding of regulator-regulatee relationship in light of moving from a traditional command and control approach towards a modern, supportive, and collaborative form of regulation, facilitated by partnership working. Our findings extend and support prior work on PCs by offering a more nuanced understanding of the experience of explicit PC creation, maintenance, disruption and repair.

Our study identified the creation phase of an explicit PC taking place over an extended period of time, during which the details of the PC were routinely discussed at a meeting until a final written set of obligations and promises were mutually agreed. Transitioning from the creation phase to ‘maintenance’ was made possible by installing a ritual of reflection at the end of each partnership meeting which we note signifies PC ‘fulfillment’. This active reflection seemed a key component of the partnership in affirming the elements of the compact and maintaining the status quo of the PC (Rousseau, et al. 2018). Our findings also suggest that a disruption can also lead to a reinforcement of the PC in much the same way as fulfilment.

To conclude, our study contributes to PC literature by providing the first analysis we are aware of that traces the process of explicit PC creation and maintenance. Further we highlight how a co-created explicit PC can provide a valuable mechanism for creating a ‘new deal’, particularly where prior experience may have created a legacy of mistrust. In our empirical study, we showed how an explicit PC could successfully foster a collaborative and supportive relationship between two parties that had previously been locked in a ‘command and control’ regulatory relationship. Most notably, our analysis echo Parzefall & Coyle-Shapiro (2011) in finding that an explicit PC makes disruptions immediately visible, serving to trigger repair activity via processes of sensemaking and sensegiving. In doing so, we conclude that even negatively valenced disruptions, when made visible through an explicit PC, can have a positive effect upon PC maintenance.

## REFERENCES AVAILABLE FROM THE AUTHORS