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How to Stimulate Initiative and Innovation in Any Organization:

Part Two: The Psychological Contract

Editor's Note: Material presented in this three-part series is taken from Mr. Levine's new book "Practical Project Management", John Wiley & Sons, June 2002.

When we left off...

In part one of this three-part series, we concluded with the following:

Initiative and innovation are often stifled by organizational segmentation, the absence of trust, and the unwillingness to take risks. When any of these three conditions exist, it is difficult for talented individuals to flourish and to contribute all that they are capable of. This is a lose-lose situation, as the individuals feel frustrated and unappreciated and the firm fails to obtain the full measure of each individual's potential contribution.

I suggested that a partial remedy is to adopt Edgar Schien's concept of the Psychological Contract. There are some basic tenets regarding *authority* in the organization that influence the Psychological Contract concept. One is *knowledge power*. As we move from the traditional bureaucratic organizational structure to a less structured *Adhocracy*, we move from a model based on *position power* to one based on *expert power*. A person's job title may have less standing (at least in the informal organization that underlies every printed organization chart) than a person's applicable knowledge. Authority, according to Schein (re-stating a view postulated by Bernard & Simon), implies the willingness on the part of a subordinate to obey because he consents, that is, he grants to the person in authority the right to dictate to him.

Schein goes on to claim that *"an organization cannot function unless the members consent to the operating authority system, and that this consent hinges upon the upholding of the psychological contract between the organization and the member."* While we may have questioned this position on authority twenty years ago, we certainly can see that it has become more of the norm as we enter the 21st century.

Before we get to a description of the Psychological Contract concept, let's explore some common theories about human behavior in the organization. While we cannot apply these theories to everyone in the workforce, we hold these attributes to be characteristic of today's psychologically healthy and productive individuals.

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- ❑ These people have an inherent need to use their capacities and skills in a mature and productive way.
- ❑ They seek to make their work more interesting, challenging, and meaningful.
- ❑ They thirst for a sense of pride and self-esteem.

The Psychological Contract

According to Schein, for these individuals to achieve these goals in the workplace, and to obtain satisfaction from their work, depends to a large measure on two conditions.

- ❑ First, is the degree in which their own expectations of what the organization will provide them and what they owe the organization, match what the organization's expectations are of what it will give and get.
- ❑ Second (assuming that there is an agreement on expectations) is what is actually exchanged -- money in exchange for time at work; social-need satisfaction and security in exchange for work and loyalty; opportunities for self-actualization and challenging work in exchange for high productivity, quality work, and creative effort in the service of organizational goals; or various combinations of these and other things.

So here we have the essence of a Psychological Contract. And I can tell you from experience that it works. I remember a time, back in the 70's, when I was requested to accept a new assignment, at the General Electric Company. My new manager (someone whom I had known professionally and respected) invited me to sit down with him and discuss our needs and expectations. He presented his needs from my new position and what he expected. And he told me what he had to offer for my fulfillment of these needs. He asked me what I felt that I had to offer in this position and what I expected to get out of it. We negotiated a working relationship that extended to me a greater than usual autonomy in return for my acceptance of a new and challenging assignment. The relationship was based on immediate trust and confidence in each one being able to deliver the goods -- to meet needs and expectations that were mutually agreed to. For me, it was the best two years out of the 24 that I had at GE. For him, he knew that I would do whatever it took to support the goals. Although he was my manager, it felt more like we were partners.

Would this approach -- the Psychological Contract -- work today? Absolutely! In today's environment of greater respect for expert power and competition for skilled workers, it is those managers that embrace this Psychological Contract concept that will gain the trust and unreserved support of their subordinates. It won't matter if the nature of the organization is a bureaucracy or an adhocracy, or even a teamocracy. There will always be those who will be responsible for motivating the contributions of others to support the goals of the enterprise.

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Leaders, whether formal managers or temporary leaders or even those to which we voluntarily grant authority, who offer to negotiate a Psychological Contract, stand the best chance of providing a stimulating environment for all involved.

Admittedly, the diverse organizational styles of today's corporations do make the concept of the Psychological Contract much more complex. If a typical firm operates under a basic hierarchical structure, further broken down into cross-functional teams or matrix forms, it is likely that most of the people will be working under the direction of multiple leaders. These may include the formal manager, a long-term project manager, a shorter-term task force leader, and the elected leader of a temporary team. While it would be a stretch to assume that a Psychological Contract would be negotiated in every one of these relationships, it is a logical assumption to recognize that these teams will work better when there is a reasonable match between expectations and contributions among the team members.

In order to do this, we need to instill two behavioral protocols into the organization.

- First, there must be a culture, supported at the very top of the organization, which believes in this approach and shares this belief with the rest of the company.
- Second, the human resources function, must reinforce this culture, by maintaining an awareness of the individuality of each worker and including that information in the skills inventory.

In the 21st century, maintaining a cadre of knowledgeable, skilled, motivated, workers will be a major component of the true assets of a company. Being able to pull workers from this store, based on matching skills and assignment preferences to the need, will be of paramount importance to success.

Machiavelli in the 21st Century

In my readings on organizational behavior and leadership, I was amused by the frequency of quotations from Machiavelli. While we are quick to reject Machiavelli's ways, we surely recognize the pervasiveness of such reasoning in the organization. It must be embarrassing to realize that in the not too distant past, we selected and rewarded managers for exactly the traits and philosophy expounded by Machiavelli. However this will not stand the test of the new century. There are better alternatives in leadership structure and style that will work better with today's psychologically healthy and productive individuals.

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