# 15

The employment relationship

This chapter explores the nature of the employment relationship and the creation of a climate of trust within that relationship.

THE EMPLOYMENT RELATIONSHIP DEFINED

The term employment relationship describes the interconnections that exist between employers and employees in the workplace. These may be formal, eg contracts of employment, procedural agreements. Or they may be informal, in the shape of the psychological contract, which expresses certain assumptions and expectations about what managers and employer have to offer and are willing to deliver (Kessler and Undy, 1996). They can have an individual dimension, which refers to individual contracts and expectations, or a collective dimension, which refers to relationships between management and trade unions, staff associations or members of joint consultative bodies such as works councils.

NATURE OF THE EMPLOYMENT RELATIONSHIP

The dimensions of the employment relationship as described by Kessler and Undy (1996) are shown in Figure 15.1.
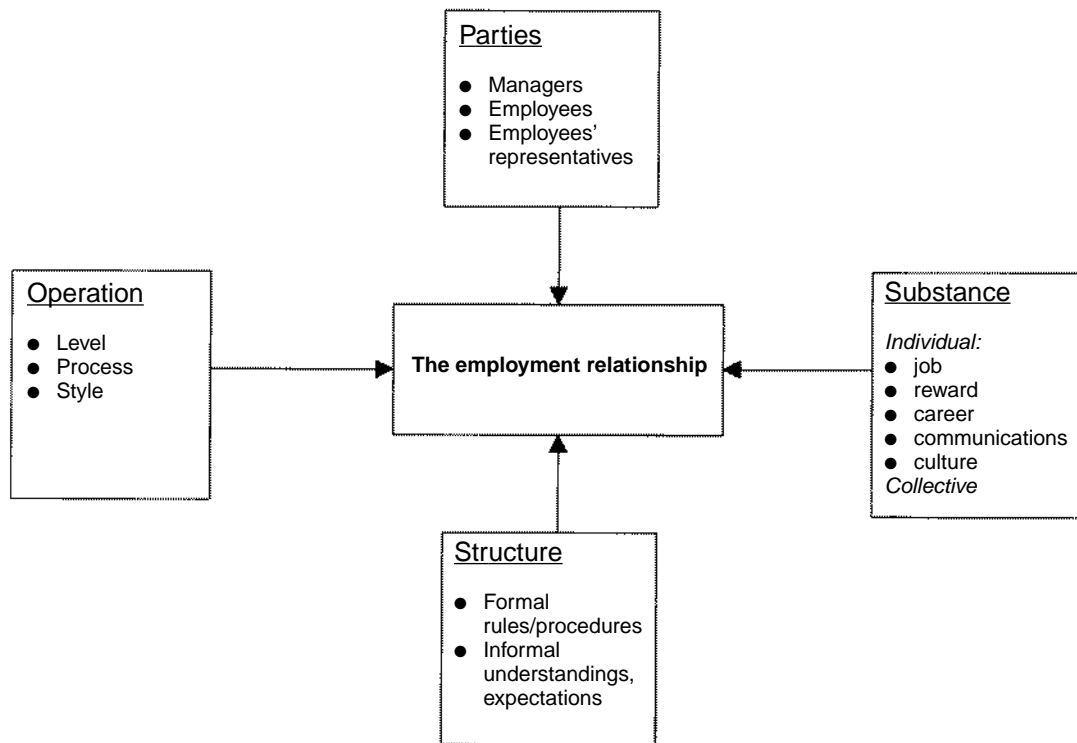
Figure 15.1 Dimensions of the employment relationship

(*Source:* S Kessler and R Undy, *The New Employment Relationship: Examining the psychological contract*, Institute of Personnel and Development, London, 1996)

The parties are managers, employees and employee representatives. The 'substance' incorporates the job, reward and career of individuals and the communications and culture of the organization as it affects them. It can also include collective agreements and joint employee relations machinery (works councils and the like). The formal dimensions include rules and procedures, and the informal aspect covers understanding, expectations and assumptions. Finally, the employment relationship exists at different levels in the organization (management to employees generally, and managers to individual employees and their representatives or groups of people). The operation of the relationship will also be affected by processes such as communications and consultation, and by the management style prevailing throughout the organization or adopted by individual managers.

BASIS OF THE EMPLOYMENT RELATIONSHIP

The starting point of the employment relationship is an undertaking by an employee to provide skill and effort to the employer in return for which the employer provides the employee with a salary or a wage. Initially the relationship is founded on a legal contract. This may be a written contract but the absence of such a contract does not mean that no contractual relationship exists. Employers and employees still have certain implied legal rights and obligations. The employer's obligations include the duty to pay salary or wages, to provide a safe workplace, to act in good faith towards the employee and not to act in such a way as to undermine the trust and confidence of the employment relationship. The employee has corresponding obligations, which include obedience, competence, honesty and loyalty.

An important factor to remember about the employment relationship is that, generally, it is the employer who has the power to dictate the contractual terms unless they have been fixed by collective bargaining. Individuals, except when they are much in demand, have little scope to vary the terms of the contract imposed upon them by employers.

DEFINING THE EMPLOYMENT RELATIONSHIP

Two types of contracts defining the employment relationship have been distinguished by Macneil (1985) and Rousseau and Wade-Benzoni (1994):

- *Transactional contracts* have well-described terms of exchange, which are usually expressed financially. They are of limited duration, with specified performance requirements.
- *Relational contracts* are less well defined with more abstract terms and refer to an open-ended membership of the organization. Performance requirements attached to this continuing membership are incomplete or ambiguous.

However, the employment relationships can also be expressed in terms of a *psychological contract*, which, according to Guzzo and Noonan (1994), has both transactional and relational qualities. The concept of a psychological contract expresses the view that at its most basic level the employment relationship consists of a unique combination of beliefs held by an individual and his or her employer about what they expect of one another. This concept is discussed in more detail in Chapter 16.

SIGNIFICANCE OF THE EMPLOYMENT RELATIONSHIP CONCEPT

The concept of the employment relationship is significant to HR specialists because it governs much of what organizations need to be aware of in developing and applying HR processes, policies and procedures. These need to be considered in terms of what they will or will not contribute to furthering a productive and rewarding employment relationship between all the parties concerned.

CHANGES IN THE EMPLOYMENT RELATIONSHIP

As noted by Gallie *et al* (1998) in their analysis of the outcome of their 'employment in Britain' research programme, while there have been shifts in the ways in which people are employed: 'The evidence for a major change in the nature of the employment relationship was much less convincing.' But they did note the following characteristics of employment as revealed by the survey:

- New forms of management, often based explicitly or implicitly on HRM principles and emphasizing individual contracts rather than collective bargaining.
- There was some increase in task discretion but there was no evidence of a significant decline in managerial control; indeed, in some important respects control was intensified.
- Supervisory activity was still important.
- Integrative forms of management policy were centred on non-manual employees.
- The great majority of employees continued 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 and the granting of increased discretion to employers are key factors in improving the quality of work experience.
- High levels of commitment to the organization can reduce absenteeism and labour turnover but there was no evidence that organizational commitment 'added anything over and above other organizational and task characteristics with regard to the quality of work performance'.

MANAGING THE EMPLOYMENT RELATIONSHIP

The dynamic and often nebulous nature of the employment relationship increases the difficulty of managing it. The problem is compounded because of the multiplicity of

factors that influence the contract: the culture of the organization; the prevailing management style; the values, espoused and practised, of top management; the existence or non-existence of a climate of trust; day-to-day interactions between employees and line managers; and the HR policies and practices of the business.

The latter are particularly important. The nature of the employment relationship is strongly influenced by HR actions. These cover all aspects of HR management. But how people are treated in such areas as recruitment, performance reviews, promotion, career development, reward, involvement and participation, grievance handling, disciplinary procedures and redundancy will be particularly important. How people are required to carry out their work (including flexibility and multi-skilling), how performance expectations are expressed and communicated, how work is organized and how people are managed will also make a significant impact on the employment relationship. HR specialists can contribute to the development of a positive and productive employment relationship in the following ways:

- *during recruitment interviews* – presenting the unfavourable as well as the favourable aspects of a job in a 'realistic job preview';
- in *induction programmes* – communicating to new starters the organization's personnel policies and procedures and its core values, indicating to them the standards of performance expected in such areas as quality and customer service, and spelling out requirements for flexibility;
- by issuing and updating *employee handbooks* that reinforce the messages delivered in induction programmes;
- by encouraging the development of *performance management* processes that ensure that performance expectations are agreed and reviewed regularly;
- by encouraging the use of *personal development plans* that spell out how continuous improvement of performance can be achieved, mainly by self-managed learning;
- by using *learning and development programmes* to underpin core values and define performance expectations;
- by ensuring through *manager and team leader training* that managers and team leaders understand their role in managing the employment relationship through such processes as performance management and team leadership;
- by encouraging the maximum amount of *contact* between managers and team leaders and their team members to achieve mutual understanding of expectations and to provide a means of two-way communications;
- by adopting a general policy of *transparency* – ensuring that in all matters that affect them, employees know what is happening, why it is happening and the impact it will make on their employment, development and prospects;

- by developing *HR procedures* covering grievance handling, discipline, equal opportunities, promotion and redundancy and ensuring that they are implemented fairly and consistently;
- developing and communicating *HR policies* covering the major areas of employment, development, reward and employee relations;
- by ensuring that the *reward system* is developed and managed to achieve equity, fairness and consistency in all aspects of pay and benefits;
- generally, by advising on *employee relations procedures*, processes and issues that further good collective relationships.

These approaches to managing the employment relationship cover all aspects of people management. It is important to remember, however, that this is a continuous process. The effective management of the relationship means ensuring that values are upheld and that a transparent, consistent and fair approach is adopted in dealing with all aspects of employment.

TRUST AND THE EMPLOYMENT RELATIONSHIP

The IPD suggested in its statement *People Make the Difference* (1994) that building trust is the only basis upon which commitment can be generated. The IPD commented that: 'In too many organizations inconsistency between what is said and what is done undermines trust, generates employee cynicism and provides evidence of contradictions in management thinking.'

It has also been suggested by Herriot *et al (*1998) that trust should be regarded as social capital – the fund of goodwill in any social group that enables people within it to collaborate with one another. Thompson (1998) sees trust as a 'unique human resource capability that helps the organization fulfil its competitive advantage' – a core competency that leads to high business performance. Thus there is a business need to develop a climate of trust, as there is a business need to introduce effective pay-for-contribution processes, which are built on trust.

The meaning of trust

Trust, as defined by the Oxford English Dictionary, is a firm belief that a person may be relied on. An alternative definition has been provided by Shaw (1997) to the effect that trust is the 'belief that those on whom we depend will meet our expectations of them'. These expectations are dependent on 'our assessment of another's responsibility to meet our needs'.

A climate of trust

A high-trust organization has been described by Fox (1973) as follows:

> Organizational participants share certain ends or values; bear towards each other a diffuse sense of long-term obligations; offer each other spontaneous support without narrowly calculating the cost or anticipating any short-term reciprocation; communicate honestly and freely; are ready to repose their fortunes in each other's hands; and give each other the benefit of any doubt that may arise with respect to goodwill or motivation.

This ideal state may seldom, if ever, be attained, but it does represent a picture of an effective organization in which, as Thompson (1998) notes, trust 'is an outcome of good management'.

When do employees trust management?

Management is more likely to be trusted by employees when the latter:

- believe that the management means what it says;
- observe that management does what it says it is going to do – suiting the action to the word;
- know from experience that management, in the words of David Guest (Guest and Conway, 1998), 'delivers the deal – it keeps its word and fulfils its side of the bargain';
- feel they are treated fairly, equitable and consistently.

Developing a high-trust organization

As Thompson (1998) comments, a number of writers have generally concluded that trust is 'not something that can, or should, be directly managed'. He cites Sako (1994) who wrote that: 'Trust is a cultural norm which can rarely be created intentionally because attempts to create trust in a calculative manner would destroy the effective basis of trust.'

It may not be possible to 'manage' trust but, as Thompson argues, trust is an outcome of good management. It is created and maintained by managerial behaviour and by the development of better mutual understanding of expectations – employers of employees, and employees of employers. But Herriot *et al* (1998) point out that issues of trust are not in the end to do with managing people or processes, but are more about relationships and mutual support through change.

Clearly, the sort of behaviour that is most likely to engender trust is when management is honest with people, keeps its word (delivers the deal) and practises what it preaches. Organizations that espouse core values ('people are our greatest asset') and then proceed to ignore them will be low-trust organizations.

More specifically, trust will be developed if management acts fairly, equitably and consistently, if a policy of transparency is implemented, if intentions and the reasons for proposals or decisions are communicated both to employees generally and to individuals, if there is full involvement in developing HR processes, and if mutual expectations are agreed through performance management.

Failure to meet these criteria, wholly or in part, is perhaps the main reason why so many performance-related pay schemes have not lived up to expectations. The starting point is to understand and apply the principles of distributive and procedural justice.

Justice

To treat people justly is to deal with them fairly and equitably. Leventhal (1980), following Adams (1965), distinguished between distributive and procedural justice.

Distributive justice refers to how rewards are distributed. People will feel that they have been treated justly in this respect if they believe that rewards have been distributed in accordance with their contributions, that they receive what was promised to them and that they get what they need.

Procedural justice refers to the ways in which managerial decisions are made and HR procedures are managed. People will feel that they have been treated justly if management's decisions and procedures are fair, consistent, transparent, non-discriminatory and properly consider the views and needs of employees.

Renewing trust

As suggested by Herriot *et al* (1998), if trust is lost, a four-step programme is required for its renewal:

1. admission by top management that it has paid insufficient attention in the past to employees' diverse needs;
2. a limited process of contracting whereby a particular transition to a different way of working for a group of employees is done in a form that takes individual needs into account;

3. establishing 'knowledge-based' trust, which is based not on a specific transactional deal but on a developing perception of trustworthiness;
4. achieving trust based on identification in which each party empathizes with each other's needs and therefore takes them on board themselves (although this final state is seldom reached in practice).