Organizational Dynamics (2015) 44, 243–252

Available online at www.sciencedirect.com

ScienceDirect

journal homepage: www.elsevier.com/locate/orgdyn

Footprints in the Sand: Denise Rousseau

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INTRODUCTION

One of the most important missions of Organizational Dynamics *has been to serve as a bridge between widely recognized scholars in Organizational Science and professional managers and M.B.A. students — those who translate basic research into real world results, theory into practice.*

To accomplish this mission, we want to feature some of the most well-known, insightful and productive researchers and thinkers in Organizational Science to talk about their work in a more personal voice and easily accessible format.

Welcome once again to "Footprints in the Sand," the fourth in our series of interviews with leading organizational scientists.

Following interviews with Bruce Avolio, the Marion B. Ingersoll Professor at the Center for Leadership & Strategic Thinking at the University of Washington, Michael Beer, the Cahners-Rabb Professor of Business Administration, Emeritus, Harvard Business School and Edgar Schein, the Society of Sloan Fellows Professor of Management Emeritus at the MIT Sloan School of Management, we're delighted to provide an in-depth conversation with Denise Rousseau, the H. J. Heinz II University Professor of Organizational Behavior and Public Policy, Carnegie-Mellon University, a ground breaking researcher and thinker on such topics as the "psychological contract" between employees and their employer, employee well-being and career development, organizational effectiveness, the management of change, firm ownership and governance, industrial relations and evidence-based management. Our interviewer is Barry Mike, M.A, M.B.A., the managing partner of Leadership Communication Strategies, LLC, a management consultancy specializing in working with leaders and organizations to mitigate the risks of change and solve business problems whose cause is rooted in or whose solution requires communication.

Fred Luthans
John Slocum

BARRY MIKE: Let's start with one of the concepts for which you're most well-known: the "psychological contract," which at one point you've defined simply as "beliefs concerning the reciprocal obligations between employees and their employer." It's a complement to your impact that the term has entered the common business parlance. The question: though spoken of frequently, is it actually used in business management? That is, do you see leaders incorporating psychological contracts into business planning or is it a term that never makes it out of the Human Resources function?

PSYCHOLOGICAL CONTRACTS

DENISE ROUSSEAU: That's a good question, and as with many things in management practice, there's not a simple response. Let's take firms where they've already made a lot of investment in people, implementing what in HR we'd

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http://dx.doi.org/10.1016/j.orgdyn.2015.05.009

call a ''make-oriented'' strategy, that is, where they develop and generate value through the skills of their workforce. In these kinds of firms, the concept of a psychological contract tends to loom very large. Managers there tend to think in terms of: ''How do we work with the investments we've made in people? How do build on these? How do we avoid eroding the contract?'' In these firms, notions of high performance are thought of in terms of what their people can do as opposed to what financial capital can do.

BARRY MIKE: How common is the ''make-oriented'' strategic approach?

DENISE ROUSSEAU: It's more common in Europe than it is in the United States, especially in the low countries, Netherlands and Belgium, and in Scandinavia. This is a concept they think a lot about in Denmark, for example, where I've done workshops for heads of employer associations and union leaders. In France, where there's been some erosion of the French social contract, which is a collective notion, the idea of the psychological contract, which is very individual, is increasingly popular. In fact, my book, *Psychological Contracts in Organizations*[1] was just translated into French, 20 years after its first publication. For the French, it's a new concept. Of course, maybe it has appeal because of my last name and their thinking that I'm the second coming of Jean-Jacques Rousseau (*laughs.)*

BARRY MIKE: Why do you think some countries have taken to the concept of ''psychological contracts'' more than others? What makes it salient in one place and not another?

DENISE ROUSSEAU: I think, to a large extent, it reflects the degree to which the concept of contract is filtered through a financial markets perspective rather than an employee perspective. So in the U.S., for example, a lot of the emphasis in contracting has to do with managing and mitigating financial risks. As a result, explicit contractual terms tend to be the focus and there is less emphasis on implicit terms relating to a psychological contract. When you talk to CEOs and CFOs who hold that financial perspective, only the explicit matters, only the things that are directly enforceable by law. But there are environments in the U.S. where people are less focused on legal contracts alone and more concerned with managing through relationships and through developing networks of constructive ties. I see a lot of this in knowledge-work organizations in the U.S.; the psychological contract matters more because people are thinking in terms of: ''How will my partners react? How will my customer react?'' Their thinking is not so much about what they're obligated to do, but more about what is appropriate to maintain constructive relationships. When you think more about matters of relational quality rather than strictly monetary matters, psychological issues and the beliefs the parties hold loom larger.

BARRY MIKE: Can that kind of thinking hold in poor economic conditions where, at least in the U.S., people seem to be fired at the first sign of financial difficulties, for example in the Great Recession of 2008—2009 or in the oil and gas industry in 2014—2015 given the drop in oil prices?

DENISE ROUSSEAU: Many employers, particularly in the U.S., have not figured out what it costs them to manage labor as a cost rather than an investment. They often limit their arrangements with employees to a very minimal psychological contract, call it the ''tit-for-tat'', I pay you and you do this, period. Such contracts yield limited returns for both parties and often in uncertain environments generate considerable stress on the part of employees. And when people are stressed, they're not necessarily able to contribute as much intellectually and emotionally, or be as adaptive in their work.

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On the other hand, there are organizations like those I work with in health care and research and development that pay a great deal of attention — because they need to — to how to get people to go above and beyond. In that case, it's not what you pay people that leads them to make high performance contributions, it's other kinds of resources that make a job valuable and that provide the basis for a psychological contract that is deep and broad in terms of what employee and employer contribute to each other.

By the way, one of the things that has become more explicit over time is how much of the psychological contract is linked to individuals attaining their goals. And to the degree that employees are frustrated in achieving their goals, the psychological contract with their employer becomes relatively inelastic and less able to motivate people to contribute highly to their employer.

BARRY MIKE: It certainly makes sense that where companies invest in their people as a competitive differentiator and organize work in a way that allows individuals to achieve their goals, psychological contracts will be strong. Which makes it all the more surprising that you found evidence for a psychological contract in studying China, with its very different social and organizational context. What does mean for our understanding of psychological contracts?

DENISE ROUSSEAU: If I could just say one thing. I used to believe that psychological contracts function largely in environments where there was already some sort of rule of law; where people already had a basis for voicing their individual rights.

Now, I no longer think that. . . because of China. China is a very good example of a country with little rule of law where employees are concerned. It has a hierarchical political environment with a lot of reliance on social ties and limited individual rights. Chinese workers often think along the lines of, ''My boss wants this from me. Is he speaking for himself or is he speaking for somebody else? How will these people give me what I want in this situation?''

Instead of more explicit terms of exchange, it seems that in China workers think more about how to capitalize on relationships to achieve what they personally want. People form mental models of their exchange relationships and what they can expect of others in roles like boss or business partner. That allows a psychological contract process that really has very little to do with the rule of law. But it's still a psychological contract of personally relied upon obligations employees and employers are motivated to fulfill. It's a

[1] Rousseau, Denise, *Psychological Contracts in Organizations: Understanding Written and Unwritten Agreements*, Sage Publications, May 1995, 264 pages.