Chapter 69

The Importance of Psychological Contracts in Human Resource Management within the New Global Economy

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ABSTRACT

Human resources are considered the company's most valuable resource. For that reason, organizations require a Human Resource Management (HRM) that provides the adequate work force within the new global economy. The psychological contract includes solid agreements between company and its employees, beyond the written contract, specifying their contributions, expectations, beliefs, promises, and obligations between both parties. Their management requires the definition of the concept of psychological contract, the analysis of its main characteristics and contents; and the identification of its stages of development. Electronic Human Resource Management (e-HRM) introduces a way of implementing HRM strategies through Web-based tools, improving the psychological contract management. Information phase, Intranet, and internal electronic mail have an important role in socialization stage. The consolidation of psychological contract (maintenance phase) is favoured by Intranet, business-to-employees, internal electronic mail, database, videoconference, and groupware. Finally, in breach phase, intranet, electronic mail, database, videoconference, and groupware are important E-HRM.

1. INTRODUCTION

In the global economy, human resources are considered to be the most important asset of an organization, but very few organizations are able to fully harness its potential. Human resources are also considered the most important component of a corporation's competitive advantage in global markets. As human resources are considered the company's most valuable resource, it is necessary to improve their management.

Human Resource Management (HRM) refers to all of the dedicated activities that an organization uses to affect the behaviours of all the people who work for it (Jackson & Schuler, 2003). HRM is defined as "the policies, practices and systems that influence employees' behaviour, attitudes and performance" (De Cieri and Kramar, 2005). Ideally, these comprise "activities undertaken to attract, develop, and maintain an effective workforce within an organization" (Daft 2000), who ensure the effective functioning and survival of the organization and its members. Organizations need to hire the right numbers of people, with the right qualifications, for the right jobs, in the right locations. Line managers' expectations are to attract and retain excellent employees from the workforce pool. The impact of HRM policies and practices on firm performance is widely accepted and become an important topic in the fields of HRM, industrial relations, and industrial and organizational psychology (Kleiner, 1990; Boudreau, 1991; Jones & Wright, 1992). For these reasons, organizations try to optimize their HRM.

2. MAIN PURPOSE

The classical employment relationship, open-ended as to both its task content and its duration, was tying stable rates of pay to indefinite duration jobs. Employers offered job security and internal career opportunity with little risk of exposure to their workers (Kluytmans and Ott, 1999; Rousseau & Schalk, 2000), because workers did not leave, and certainly not to the competitor (Kluytmans and Ott, 1999). Employees were obedient and disciplined when carrying out their function and when requesting reallocation; and provided maximum performance at present function (Kluytmans y Ott, 1999).

In return, employees expected the reward of loyalty through continuation of the labour relationships and job security (Hiltrop, 1995; Kluytmans and Ott, 1999), irrespective of eco-nomic circumstances; the control of career by employer (Kluytmans and Ott, 1999) and payment of a guaranteed wage (Garud & Shapira, 1997; Rousseau and Shperling, 2003).

In the new global economy, increasing international competition, deregulation and globalization of markets have demanded greater flexibility and productivity of organizations. Firms have made the organizational structure change from a hierarchical to a flat form, accompanied by rapid reduction of the permanent core workforce, supplemented by a larger group of temporary contract and contingent employees, which has become a common employment staffing practice in today's modern organizations (Byrne, 1993; Allred *et al.*, 1996; Nicholson, 1996). New forms of labour contract has therefore emerged, such as fixed-term contracts, temporary contracts, etc (atypical contract). They are more short-term contracts and provide fewer career development activities (Pieters, 2009). Companies introduce new strategies, methods and techniques to attract and retain talented workers (Hiltrop, 1995, 1999; Ermel and Bohl, 1997; Rousseau and Shperling, 2003). Large companies had a core group of professional employees who were dependable, who would work hard and who would sacrifice the present for the future (Hiltrop, 1995).

For *organization*, new contractual forms provide greater flexibility and a good deal of enforceability (Marsden, 2004; Silla *et al.*, 2005). Instead of career paths and job security, a new kind of security, called "employability security" is established (Hiltrop, 1995; Schein, 1996). This is the promise that the employee's skills will be enhanced, and access to other tasks and assignments will be facilitated. Moreover, a new pay system is applied, based on flexibility bands to encourage the members to develop new skills (Hiltrop, 1995; Kinnie *et al.*, 1999; Silla *et al.*, 2005).

On the other hand, new contractual forms are getting *employees* to broaden their skills, by organizational learning and training programs, and identify the development of additional skills

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