

# THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY POLICIES ON THE EMPLOYEES' PSYCHOLOGICAL CONTRACT

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## **Abstract**

The relations between the organizations and their employees are governed by a highly complex framework of motives and perceptions difficult to unravel. As a result of the daily practice of such relationship, there is a permanent exchange of individual efforts and incentives for the sake of satisfaction of organizational needs. The objective of the present work is to look into the essence of such exchanges and specifically to analyse the power of certain corporate policies, such as Social Responsibility ones, as incentives both for stimulating employee's willingness to cooperate and for enriching his/her commitment with the company. Our starting point will be some core points coming from the field of Management Theory and Organizational Behavior, in particular Barnard's theory and the construct of Psychological Contract. We will further merge both approaches into an integrative model, and will illustrate its operation through an analysis of the implementation of social responsibility policy by a large Spanish company, placing the emphasis on the employees' reactions and their evolving degree of commitment with the firm.

## **Keywords**

Corporate Social Responsibility, Psychological Contract, Social Cause, Business Alliances, Business Ethics

## 1. Introduction

In spite of the growing interest that the field of Social Responsibility is arousing in organizations, very little has been written so far regarding their potential impact on employees' attitudes and how they may affect their willingness to cooperate with the company. Although there seems to exist some evidence that they play a relevant role in enriching employees' commitment and retention<sup>1</sup>, the deep mechanism operating below this is still quite unknown.

Some management theories offer thought-provoking ideas about this conflict of professional interests and corporate objectives managing the relations between organizations and employees. Among them we will concentrate here on the outstanding work of Chester Barnard, a real precursor to modern theories of incentives. His contribution has made it possible to go beyond the traditional economicist view of incentives and bring intangible elements into consideration as powerful sources of satisfaction of human needs and motives.

As for the field of Organizational Behaviour, the concept of Psychological Contract offers a comprehensive, mainly transactional model of the process underlying the relation between employee and employer. We have found such model to be highly complementary with Barnard's vision of incentives, in that it provides some insight into what is considered by him as a "black box": the mental model that the individual elaborates about the value of the company and the corresponding effort to be put by him/herself on it.

Our starting point is that the individual, on playing his role as an employee, renounces to his/her own personal interests in order to adapt to the willingness of the community in search for a common goal. Our working hypothesis is that the greater the distance between personal and professional roles, the greater the incentive to be provided for motivating the individual and therefore increasing his/her willingness to collaborate.

## 2. The work of Chester Barnard: organizations as cooperative systems

Chester Barnard's vision of organizations<sup>2</sup> is one of the most pioneering and illuminating when looking into how an employee experiences his/her relation with the company and, above all, what should be the characteristics of the incentive systems that optimize both the effort put by the employee and its final productivity gains for the organization. One of the most interesting contributions of his work to the field of General Management is to broaden the focus from material, economic inducements as the unique source of motivation and further contemplate incentives as the way to reduce the conflict posed to the individual between personal and organizational motives. Along this line, the functions of the executive (and by extension, the aim of any corporate policy) would consist on reconciling both types of motives, and therefore creating a balanced climate for the employee.

A direct relationship can be found between Barnard's concept of motivation and some of the hypothesis frequently discussed by Role Theory. This theory states that a person's identity is composed of the performance of a variety of different roles. The personal, final choice of roles to be performed by a person depends on:

- Personal features: personality traits, interests, attributes, skills, etc.
- Situational features: culture, sub-cultures, environmental conditions, etc.

The individual, on the basis of a combination of these factors, will play a specific set of roles, to which he/she will grant a different kind of priority. There may be some cases in which the performance of a specific role can go against the development of others (e.g. a housewife giving up a business career to devote to childcare, the clergyman who concentrates on

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<sup>1</sup> See eg Sue Adkins Cause Related Marketing: Who Cares wins Butterworth Heinemann, London 2000.

<sup>2</sup> Chester I. Barnard *The Functions of the Executive*, Harvard University Press, 1938.

servicing the community, etc.). However, in most of the cases people have to combine the performance of a set of different roles along their everyday living.: father or mother, employee, friend, member of the community, etc. Following Goffman, the aim of the performance of these roles is to effectively influence the environment, the persons around us with whom we interact<sup>3</sup>. This way, personal satisfaction is achieved by obtaining top social reward which, in turn, depends on the context: on the professional role, a high compensation or acknowledgement or reputation; on the role of the social relations, the approval or admiration by the reference group; on the role of citizen, the respect by the community.

Consequently, from the point of view of role theory, it seems that the performance of roles which are compatible with personal features would generate larger degrees of motivation in the individual, competence and personal satisfaction. As those personal features are innate trends of behavior, the performance of similar roles would reduce to the minimum the conflict in the person. On the contrary, it may well be that the environmental factors force the person to play roles which are far from his/her preferences (e.g, in a try to gain social status), therefore increasing the conflict and psychological instability. One of the most common cases we can find of this sort of conflict is on our performing the roles of employees. In this sort of situation, the person strongly depends on external rewards (though it is obvious that there are also important intrinsically motivating occupations), and tends to become very transactional in setting up the relationship with his/her organization.

The role of employee, therefore, is dominated by a complex interaction between personal features and organizational characteristics. It is precisely regarding such complexity that Barnard insists from the very beginning of his work: that no study of organizations is possible without a previous understanding of the nature of individuals:

“I have found it impossible to go far in the study of organizations or of the behavior of people in relation to them without being confronted with a few questions which can be simply stated. For example: ‘What is an individual?’ ‘What do we mean by a person?’ ‘To what extent do people have a power of choice or free will?’ The temptation is to avoid such difficult questions, leaving them to the philosophers and scientists who still debate them after centuries.”<sup>4</sup>

The organization on its part is conceived as by Barnard as a cooperation system, in which the willingness of every individual to cooperate is crucial. The above mentioned conflict of personal and professional aspects of our personalities is one of the core concepts to consider when coping with employee’s motives and behavioural drives in the organization.

“Cooperation and organization as they are observed and experienced are concrete synthesis of opposed facts, and of opposed thought and emotions of human beings.”<sup>5</sup>

At the same time, Barnard’s distinction between organizational efficiency and effectiveness acquires relevance for the purposes of our work. Thus, the *effectiveness* of the cooperative system is defined in terms of productivity (business results), while we could only refer to *efficiency* insomuch as the individual is satisfying his/her personal motives through the cooperative action. And if we assume that the final productivity of the organization depends directly on the quantity and quality of every individual contribution to it, then it could be stated that the more efficient is the system, the more it may benefit in terms of productivity

Consequently, if the organization aims at optimising productivity by maximizing individuals’ cooperation efforts it has to offer individuals a sort of incentives to stimulate such cooperation, and those incentives must satisfy conditions derived from their personal role performance. The next point to consider would be: What is the exact nature of such

<sup>3</sup> Erwin Goffman *La presentación de la persona en la vida cotidiana* (referencia inglesa).

<sup>4</sup> Quoted from Chapter II The Individual and the Organization

<sup>5</sup> Quoted from Chapter II The individual and the Organization

incentives? Following Barnard, they cannot be exclusively material or economic, since they are not enough to completely fulfil human's aspirations:

“The unaided power of material incentives, when the minimum necessities are satisfied, in my opinion is exceedingly limited as to most men, depending almost entirely for its development upon persuasion. Notwithstanding the great emphasis upon material incentives in modern times and especially in current affairs, there is no doubt in my mind that, unaided by other motives, they constitute weak incentives beyond the level of the bare psychological necessities.”<sup>6</sup>

In his analysis of those intangible elements, Barnard outlines the need to introduce some intrinsically personal motives, suggesting inducements such as “ideal benefactions”, “associational attractiveness” or “condition of communion”. This way the organization focuses on employee's personal sphere, thus reducing the above mentioned conflict between personal and professional roles.

As has just been described, Barnard's theory sheds some light both into the nature of incentives to be provided to an employee and into the effect that such sort of incentives may cause in terms of personal satisfaction (efficiency) and organizational productivity (effectiveness). However, his study does not look into the specific mechanisms that operate into the employee's mind causing different reactions to such incentives. The field of Organizational Behaviour may contribute in a relevant way to this specific aspect.

### **3. The Psychological Contract construct: the transactional focus**

The concept of Psychological Contract emerges from the literature of Human Resources applied research in the early 90s. However, its psychological roots date back to the late 30s. Similar concepts can be found in classical sources of sociology and philosophy.

Portwood y Miller define the concept as follows:

“an implicit agreement, negotiated between the employee ad the employer firm, and it is a recognition of mutual obligations to be fulfilled by both parties in the course of their association. The terms of this contract generally include some understanding as to the rewards and considerations the individual can expect from the organization and the demands and restrictions to be placed on the individual in the work situation”<sup>7</sup>.

The psychological contract is a highly dynamic concept. It evolves and re-elaborates along every person's professional career, and is permanently adapted as a function of the personal perceptions about the organization, the values that can be incorporated to the personal repertoire as employee, the authority and power system in which he/she must be integrated, etc.

As a result of that, the psychological contract is composed both of tangible and intangible components, the last ones being much more influential in the decisions about a professional's investment of effort on a company. Along this line, maybe the most interesting implication from a Human Resources' point of view is that, depending on this set of beliefs, the employee defines (calculates) the quantity and quality of the effort to put in the organization, and consequently the level of commitment he is willing to assume with regard to it. As Argyris puts it:

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<sup>6</sup> Quoted from Chapter XI The Economy of Incentives.

<sup>7</sup> James D. Portwood and Edwin L. Miller 'Evaluating the Psychological Contract: its implications for Employee Work Satisfaction and Work Behavior' Academy of Management

“... A relationship may be hypothesized to evolve between employees and the foremen which might be called “psychological work contract”. The employee will maintain the high production, low grievances, etc., if the foremen guarantees and respects the norms of the employee informal culture.”<sup>8</sup>

Mark Roehling has traced the Psychological Contract construct from its initial references in the early 40<sup>9</sup>. He has actually found references coming from very different disciplines, from clinical psychology to law, all of them studying the field of human relations (customer-salesman, husband-wife, patient-therapist, etc). It may well seem that people tend to apply such transactional approach to many aspects of our lives, and that we strongly tend to make decisions on the basis of a calculation of what will be the profits coming out of such transaction.

In spite of previous research, it has definitely been the work of Denisse Rousseau<sup>10</sup> the one that has characterized the term Psychological Contract, and has incorporated it to the Human Resources literature. From a cognitive approach, she states that psychological contracts are organized into an individual's mental model acting as a catalyser of motivations, performance and commitment. In accordance with cognitive resources theory, we incorporate limited and highly selected information to the model, which comes from our daily interactions with the organization. The contract is therefore supplied with two main sources of information: our perceptions of the organization, and social clues coming from our cultural context and organizational norms.

Rousseau's approach is defined by two main features. Firstly, it is a purely psychological concept, that is, it is centred on the *individual's* behaviour perspective: how the person elaborates and evolves his/her own contract, which may or may not agree with the organizational opinion. In contrast with this approach, there are several authors such as Chris Argyris and Edgar Schein who adopt more of a relational focus, and state that a psychological contract is an implicit set of *reciprocal* expectations, assumptions or beliefs about the labour relation, which is elaborated on the basis of a mutual agreement under a number of conditions and constraints.

The second aspect that characterizes Rousseau's theory is the emphasis placed on the compulsory nature of the contract, as it is perceived by the employee. To this effect, the individual feels that the organization is promising future benefits that will compensate him/her for the effort put in the performance of professional functions:

"Psychological contracts differ from the more general concept of expectations in that contract are promissory and reciprocal"<sup>11</sup>

Another interesting work deserves attention to the purposes of our study, coming along Rousseau's line of research but placing the emphasis on the organizational view of the process. Portwood and Miller have elaborated a model integrating the elements of this contractual relation, which has been further tested through a longitudinal study with a sample of business school alumni. Following this model, the organization builds up a set of formal policies and systems named “the job reality” which is mainly used for defining mutual obligations and contract conditions. The employee on his/her part defines a specific commitment with this job reality within three dimensions:

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<sup>8</sup> Chris Argyris ‘Understanding Organizational Behavior’ Homewood Ill: The Dorsey Press, Inc., 1960, p.97.

<sup>9</sup> Mark V. Roehling ‘The Origins and Early Development of the Psychological Contract Construct’ Academy of Management Proceedings '96.

<sup>10</sup> Denisse Rousseau ‘New hire perceptions of their own and their employers’ obligations: a study of psychological contracts. Journal of Organizational Behaviour, 11, 1990, pp 389-400.

Denisse Rousseau ‘Psychological Contracts in Organizations: Understanding written and unwritten agreements’ Newbury Park, CA: Sage, 1995.

<sup>11</sup> Denisse M. Rousseau ‘New hire perceptions of their own and employer's obligations: A study of Psychological contracts’ Journal of Organizational Behavior 11 (1990) pp 389-400.

- **Commitment:** ability to accept the professional role with a minimum cognitive conflict state.
- **Compatibility:** Degree of perception of professional competence (capacity to integrate and effectively interact with the professional context)
- **Performance:** Productivity level (under the standards defined by the job reality)

Once the contract has been established for both parts, its sustainability will be conditioned by the value placed by both parts and depending on mutual effort investment. Along this line, the organization is usually making an initial assessment (since it is the owner of the “job reality” that sets the norms and standards), while the employee searches for potential contract violations and makes further decisions on career development, rotation, etc.

In spite of these stimulating research, literature on Psychological contracts has not been very fruitful in defining what are the aspects that define the relation employee-organization. Starting from this point, the aim of our research is to combine Barnard’s basic concepts with the psychological contract construct. Therefore, we will present an integrative model trying to shed some light on the global interaction between the company and the employee, as well as its effects in terms of productivity and job satisfaction. As an illustration to the model we will be analysing on a very preliminary basis how some corporate policies, in particular social responsibility ones, can contribute to improve this relationship, insomuch as they directly influence employees’ personal interests and consequently make them contemplate the company from a less transactional perspective.

#### **4. Why corporate responsibility?**

It has been only very recently that companies are starting to gain awareness on the incidence of personal interests in the employees’ professional motivation equation. The so-called “battle of talent” is acting as a catalyser for searching for specific incentives that provide workers with other motivation rather than purely economic ones.

On the other hand, there is also a recent but growing interest in what has been called corporate social responsibility policies. Such policies have the broad mission of making the company committed towards its community and sphere of influence, including not just shareholders and customers but also employees and providers of products and services.

From the point of view of Barnard’s method of incentives, corporate responsibility policies may act as general incentives in that they provide a service to employees which allow them to contribute to social welfare, and that transcends his/her motives of collaboration with the organization and aims at satisfying more intimate, personal ones. It could also be assumed from the psychological contract point of view that corporate responsibility policies represent a set of social and corporate values (resting on solidarity and community support) that the individual may wish to incorporate in his/her mental model when analyzing his perception about the organization and its estimated value.

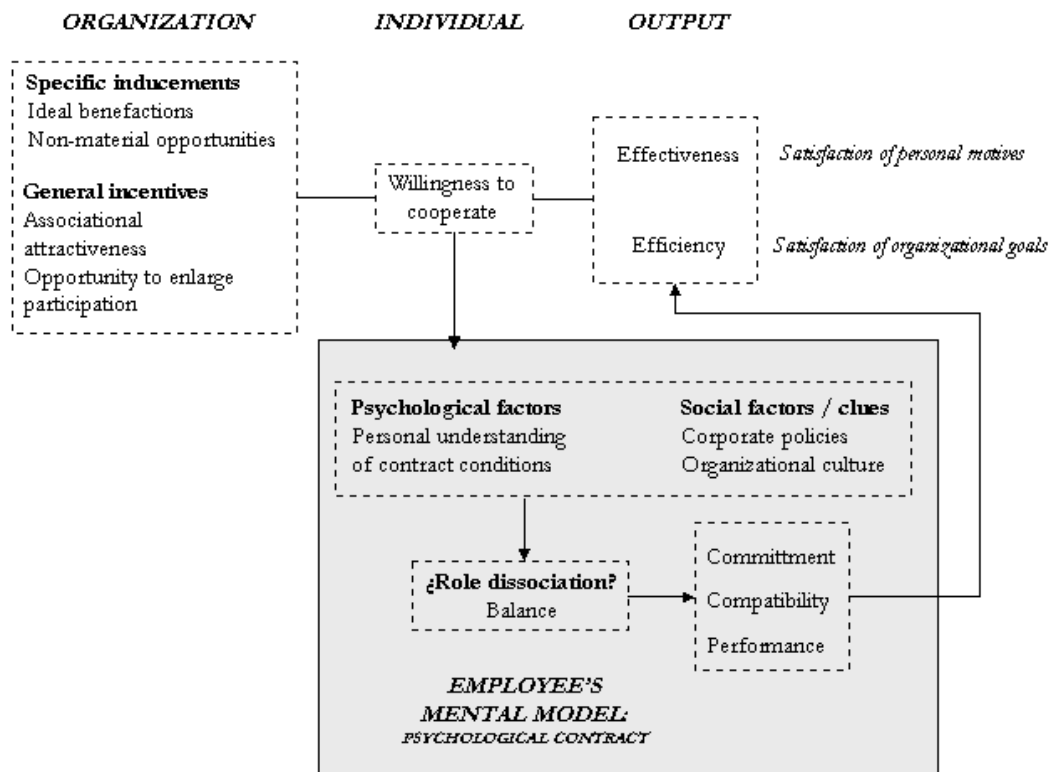
#### **5. The integrative model**

Both Barnard’s theory and the Psychological Contract approach to employees’ commitment can be combined and integrated in model from which specific hypothesis may be defined. The model is presented in Figure 1.

Complementarities between Barnard’s theory and the psychological contract model becomes especially visible from this point of view. Employees establish a transactional relation with the company, in that the performance of their professional functions forces them to subordinate their personal interests to the achievement of business results (this is defined by Barnard as “willingness serving the cooperative system’s purpose”).

The different types of incentives (and we can here refer to Barnard's distinction between general incentives and specific inducements) act as the main organizational inputs. From these inputs, the individual elaborates a model of the value of such incentives and on that basis he/she constitutes his/her own psychological contract. There are other factors outside the individual which may strongly influence this mental model and therefore modify the contract: corporate policies and organizational norms.

Figure 1. An integrative model for exploring employee's willingness to cooperate



On the basis of these assumptions, we have defined the following working hypothesis regarding what can the organization do to increase employees' motivation in the workplace:

H1. When introduced in productive organizations, Social Responsibility policies may act as a powerful incentive for the individual. Such effect is supposed to be caused because it diminishes role's dissociation in the employee, thus allowing the elaboration of a psychological contract which creates positive expectations towards the company and therefore stimulates the individual to maximize the effort put in his/her willing to cooperate.

H2. The efficiency of the organization (in Barnard's terms) is maximized under two conditions:

- (a) when the employee is intrinsically motivated by social action, that is, where there is a maximum congruence between the nature of the incentive and the individual's personal interests (psychological factors). This being the case, the person perceives that the organization is fostering a climate in which he/she can satisfy his/her own personal motives.
- (b) (b) when such policies are introduced within a corporate participative climate, and consequently there are corporate clues (in Rousseau's terms) pointing at the freedom of the employee to develop other interests rather than the merely productive ones.

H3. The effectiveness of the organization (in Barnard's terms) is in turn maximized when Social Sustainability is included as part of its corporate mission, since employees' participation in social action is then assessed as a relevant aspect of their contribution to company's productivity.

## **6. An illustration of the integrated model: Corporate Social Responsibility in a Spanish organization<sup>12</sup>**

Unión Fenosa is the third largest utility in Spain. The company resulted from a merger in 1982 of two smaller ones. Those were times in which the utility operating model was changing and the critical profitability factors were in debate. Consequently, the resulting company, in the words of one of its executives, *"learned how to gain involvement in its environment, since we could not afford new investments and were not willing to get rid of our workforce. We needed the community's complicity to survive."*

This permanent search for complicity has remained as one of its core values, and has undoubtedly set the framework for their commitment towards social action. *"We do not want to get into the different countries just to place our products and services, our aim is to actively participate in the community's dynamics"*, proudly states another executive. It is also the root of a highly participative management climate, which is recognized by the employees and considered a main asset.

Fenosa has a long tradition of social action. As its Head of Communication states, *"there has always been a combination of a solidarity behaviour on the part of employees and a vocation for solidarity on the part of management."* Its department of Sponsoring and Patronage, for instance, has long devoted a large part of its annual funding to positive interventions for the different social communities where the company operates. However, there has been a project which employees are specially keen on: the Día Solidario (Charity Day). It merged as a result of employee's own initiative in 1996, when a group of engineers visited Kenia for consultancy purposes and experienced the unfavourable social conditions of the community. *"As a group, we rapidly agreed that we should have to do something to contribute to their welfare"*. That was the starting point of the Día Solidario. The engineers made a decision that they would offer one day of their salary for social action, on a yearly basis. Equally, they constituted a management committee who would define a target project to assign the funding.

The original group of interest was extended via informal communication to a total of 126 employees, but the intention of the organizers was to capture as many funds as possible. The management committee then contacted Fenosa's CEO directly. They got a fast corporate reaction: they would get all the support they would require, as well as a 100% matching gift policy (the company would contribute a sum equal to the one they could get from employees' donations).

Since then, the Día Solidario has been steadily growing on the same principles. When an employee becomes a member the equivalent quantity is automatically taken away from his/her salary, thanks to the collaboration of the different departments involved. The CEO and the Executive Committee have personally been supporting the logistics, besides making their personal contributions through their salaries and covering travel expenses of the project's Management Committee. The initiative has now more than 1,000 members over a total staff of 25,000. Both in terms of its nature (coming absolutely from employees' initiative and being totally managed by them) and the number of persons involved, the initiative is unique in Spain.

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<sup>12</sup> We will be presenting a brief record of a case study of a large Spanish company who is using corporate responsibility policies. At the time of presentation of this paper the availability of quantitative data is very limited; therefore, only very preliminary results are included here. A further analysis will be the object of further research by the authors.



Management has always stood aside of the organization of the project. Any try on the part of the management levels of capitalizing it would have cause a strong negative reaction from employees: *“The Día Solidario runs in parallel with other social responsibility projects: they evolve together but do not interact... if they would integrate, the Día Solidario will miss its appeal for employees. If it becomes a totally corporate policy, where would the volunteering willingness be?”*. The less favourable side of this independence is the scarcity of resources and the lack of professional support for relevant aspects such as, for example, internal marketing of the project, one of the keys for greater growth. Progress of the project depends on the extra efforts of a small group, who have to integrate this into their respective responsibilities. *“Our time and effort is very limited, as well as the channels we use for spreading news and trying to attract new members”* says the Head of the Committee.

In spite of these limitations, the Día Solidario has a highly positive effect on employees' attitude towards the company. It is easy to receive comments such as: *“I'm proud of working in a company that devotes time and effort to social causes”*, or *“the project is really catching”*.

The company has included a number of items assessing the social responsibility policies in the current Climate Survey, and results have shown that there are two different valuations of such projects<sup>13</sup>:

- There is a group of committed employees, all of them members of the Día Solidario, who consider the project as a demonstration of the company's consideration and positive valuation of the employee. Both the social action and the participatory components of the project contribute to this satisfaction effect.
- A larger group of workers, not necessarily all of them members of the Día Solidario, also find these projects highly positive in that they show that the company “walks the talk” and practice social responsibility values in different aspects of their activity.

As a result of this active set of policies coming both from employee's drive and from company's planning, and given the corporate climate stimulating participation, the Department of Corporate Communication is currently working on a global project which aims at capitalizing social responsibility within the company. Social sustainability is starting to gather strength as a core value in the utility, and there is an expectation of benefits in terms of reinforcing the image of the company towards its stakeholders, placing an emphasis on the social communities in which it growingly takes part.

## 7. Conclusions and further research

The psychological contract construct has been shown to offer a thought-provoking framework for taking a step forward in Barnard's general theory of incentives. Specifically, it allows research into the concept of general incentives and their effects in motivating the employee by reducing the conflict of interests between personal and professional roles. Along these lines, the analysis of Union Fenosa as an example of a company introducing corporate social responsibility within its mission and specifically as a set of human resource policies, under the basis of our limited data so far, has also proved useful as a method of contrasting our model.

In spite of the highly preliminary character of our analysis, there are some features in the implementation of social responsibility policies in Fenosa that point towards the interest of further research in the field:

There are strong cultural clues in the company, coming by a long tradition of solidarity-oriented behaviour, which reinforce the incentive power of such policies, in that they provide

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<sup>13</sup> Quantitative analysis of survey's results have not been provided by the company at the time of the paper's deadline.

credibility in the eyes of employees. Undoubtedly, this credibility has a positive effect on the elaboration of the psychological contract.

A basic analysis of the climate survey reveals that there may be two different types of individuals experiencing a positive reaction towards SR policies: those being very active (and we assume that intrinsically motivated by social action), who are enthusiastic and critical, and appraise very positively this aspect of the company, and those that, although not being actively interested in participating in social action, attach value to the company's support to this sort of initiatives. In both cases the policy seems to have acted as an incentive, and definitely is collaborating to the elaboration of a healthy psychological contract, but in different degrees.

Another feature of Fenosa's implementation of the Día Solidario is the degree of freedom it concedes to the employees' initiative. It is even regarded both by management and workers that any sort of intervention of the part of management would destroy a large part of the project's appeal to employees. There seems to be, as is pointed out by our hypothesis, that a participative climate is another important factor in reinforcing the inceptive power of the policy.

Finally, the company's future plans for integrating their social responsibility projects and capitalize them will deserve a close follow-up on our part. Our feeling that the inclusion of social responsibility as a part of the corporate mission statement and its implications for the company's increasing efficiency through its employees is a highly suggesting idea to test out in the near future.