

Business Models and Change

The Effects on Employees and their Psychological Contracts

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Contents

1. Introduction	1
2. Key Points and Findings of This Paper	2
3. Strategies, Models, and Change	4
3.1 Business models v business strategies	4
3.2 Building and maintaining a fluid change culture	7
3.3 Business model change and employees	10
3.4 Psychological contract	11
4. Communicating and Shaping Expectations through Organisational Restructuring: Downsizing	18
4.1 Why morale matters	19
5. Outsourcing and the Employee	22
5.1 Employee perceptions and experiences	22
5.2 Identity of outsourcing suppliers	24
5.3 Generating and presenting outsourcing information	24
Appendix: Information Sources and Further Reading	29

1. Introduction

'The very nature of the business model, which dominates organisational thinking is changing. Contracts rather than hierarchies are becoming essential co-ordination tools. Information systems and electronically linked workstations are prevalent. New frames of references and new stakeholders are emerging. And the social role of the corporation is undergoing important transformations as markets dominate communities.'

Gephart, as cited in Sparrow and Cooper (2003)

As the quote above indicates, organisations are in frequent flux and the way in which they organise themselves is changing, perhaps fundamentally. Employees are on the receiving end of such change and it affects the way in which they relate to their employers: it alters the nature of the psychological contract.

The purpose of paper is to address the following issues:

1. What is business model change, how does it occur, and how is it dealt with?
2. How does business model change affect the employment expectations and how can these be managed?
3. What are the psychological contract effects of business model change?
4. How can change be effectively and appropriately designed and communicated for optimum organisational performance and employee well-being?

These questions will be discussed and illustrated through examples including the move to outsourcing the HR function, and downsizing of organisation.

2. Key Points and Findings of This Paper

Key messages

- Business models and business strategies are not the same conceptually, or practically.
- They have different levels of importance depending on the nature of the organisation (either established or emergent/start-up).
- A visible, outward indication of business model change is a changed or evolving organisational structure.

How to effect change successfully

- One of the major keys to success is changing employee mindsets.
- Leadership is imperative in this process to:
 - present the change plan and agenda in a coherent and inviting way
 - maintain employee buy-in or engagement throughout the process, and through any potential refinements in the change programme
 - provide appropriate resources and support for all employees to adequately participate in the change programme.
- The personal characteristics of leaders are also important in achieving the desired end results, including 'will', 'authenticity', 'self belief', 'self awareness' and 'integrity'.
- There is a need for consistent and timely communication, which may minimise potentially adverse effects on employees, and the organisation as a whole.
- Business model change needs to be justifiable to staff in terms of demonstrated business need.
- The HR function should be involved in the initial decision-making process because of the impact on employees (to career structures, well being and material position) and the significance of their reaction.
- Change may be more likely to succeed if certain organisational factors are in existence.

How to maintain the benefits of change

- Understanding the impact of organisational change is helped by understanding its effect on the psychological contracts.
- The psychological contract needs to be renegotiated continually if employee engagement in the change process is to be maintained.
- Where business model change involves restructuring, down-sizing, de-layering *etc.*, the effects on survivors and how to maximise their continuing employment requires attention.

3. Strategies, Models, and Change

3.1 Business models versus business strategies

Before we go further, it will be helpful to define an organisation's business model. It has been described as:

'the essential logic by which a firm consistently creates value'.

Accenture Institute for Strategic Change, 2001

It is, moreover, seen as defining and directing the values, culture and business activity of the company. The business model concept of most organisations will thus incorporate:

- how the organisation defines, reaches and delivers to its customer group(s)
- how the organisation is positioned competitively
- how the organisation is attractive and consistently successful.

Business models within the private sector are required in order to develop and maintain competitive advantage, whereas the focus for public sector organisations is likely to be effectiveness and value-for-money. However, all organisations must recognise when their current business model is not achieving optimum performance and identify appropriate ways in which to adjust or indeed redefine their business model.

Change, and the management of this process, now forms a fundamental component of modern business practice. Indeed, it has been suggested that many highly effective and successful organisations incorporate small yet almost continual change into their business model development, and that in these companies, the evolution of change is fully integrated into the daily functioning and routines of the organisation, (Linder and Cantrell, 2001). For other organisations, change occurs through more radical shifts in positioning, especially when part of a merger or acquisition. Other business model change can be seen in restructuring, outsourcing or downsizing. These may be a continual part of organisational life or occasional one-off events.

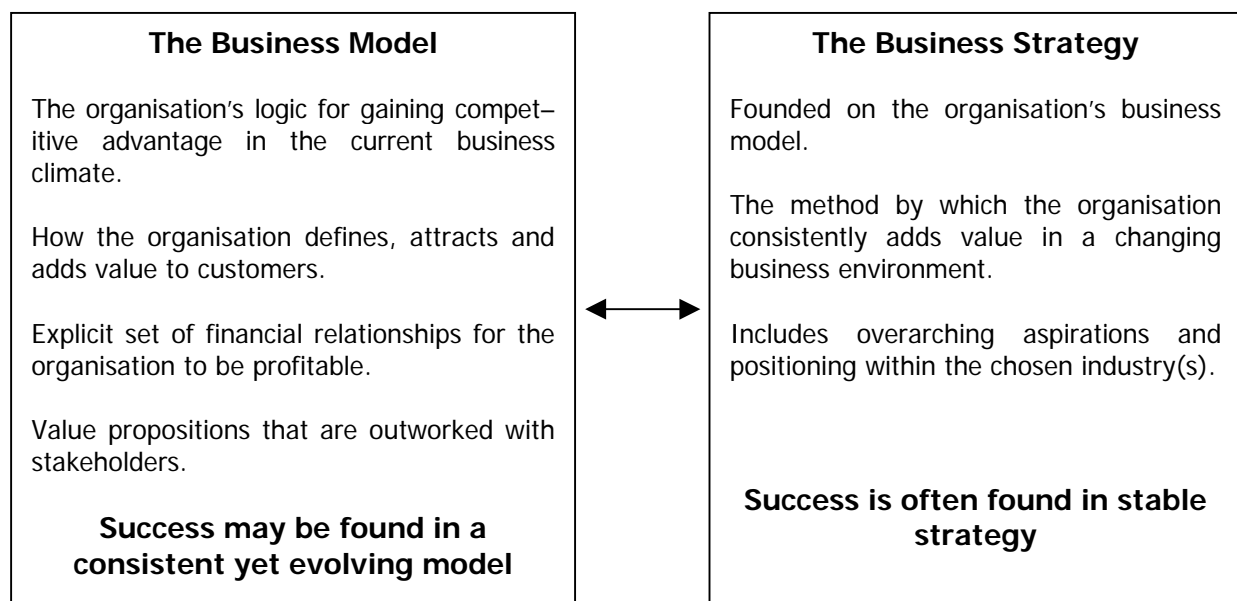
When considering the nature and impact of organisational change, it is first vital to determine whether the proposed or actual change

relates to the business model or the overall business strategy. These concepts have clear differences and thus considerably different implications as and when change occurs within them. They should not however be considered as mutually exclusive concepts. Rather that they are interdependent, intrinsically linked on many levels, therefore with wide reaching consequences when one, or indeed both are altered, not only for organisational performance and direction, but also the well being and organisational interaction with employees.

Business models and strategies are conceptually and practically different, as illustrated in Figure 3.1. A key difference between the two that can be seen in many organisations is the short-term, evolving nature of the business model, in contrast with the more longit-udinal, consistent and stable nature of the overarching strategy. Change in the organisation’s business model does not necessarily presuppose strategic or directional change, though alterations to the overall strategy are intuitively more likely to impact, direct and change the company’s business model.

A clear understanding of the organisation’s current business model and overall strategy are needed to design and direct effective change. Of particular interest is the research finding that in a recent Accenture study, almost 71 per cent of executives of non ‘dot.com’ organisations, who were interviewed, ‘had difficulty in clearly articulating their current business model’ (Linder and Cantrell, for The Accenture Institute for Strategic Change, 2001). Despite this difficulty, 84 per cent of these organisations were profitable in 2001. In stark contrast, senior representatives from 67 per cent of the ‘dot.com’ organisations interviewed were able to easily define,

Figure 3.1: Comparison of the business model and the business strategy



Source: IES, 2005

describe and discuss their business model, despite none of these organisations being profitable at the time of interview. This highlights the variation in strength and importance of the business model concept for different types of organisation.

For established firms, the long-term strategic view is perhaps more determinant of organisational success. This may differ in newly established corporations whose goals and visions are perhaps more venture- or opportunity-dependent, and hence understanding and evolving the business model has a greater importance. There is also the suggestion that there is a qualitatively different understanding of what a 'business model' incorporates between emerging and establishing organisations. To start-up entrepreneurs, a business model tends to be thought of as the key idea or theory by which they view their company will ultimately be profitable. This differs to the understanding of executives in established firms, who appear to see the model as the working reality of how the company achieves its strategic objectives.

Traditionally, competitive strategies have been formed around products, markets, or technologies. However, as business cycles shorten and technological advances accelerate, it is increasingly difficult to build a sustainable strategy around the exploitation of a protected market position (Ohmae, 1982). Arguably, the most sustainable source of advantage will be people or intellectual capital (Pucik, 1988). Prahalad (1983) popularised notions of strategic capability which refers to a company's potential to conceive and implement a wide range of strategies with minimal response time. Instead of staffing to develop a single set of core competencies, strategic capability is enhanced by developing a broad skill base for value creation.

During the 1980s the principal developments in strategy focused on the link between strategy and the external environment (Porter, 1985). By contrast the link between strategy and the firm's resources and skills has suffered comparative neglect. Most research into the strategic implications of the internal environment of the organisation have been concerned with issues of strategy implementation and analysis of the organisational processes through which strategies emerge (Mintzberg, 1985; Pettigrew, 1977). In recent years there has been a resurgence of interest in the role of the firm's resources as the foundation for strategy. Proponents of this 'resource based view' see the successful firm as a bundle of somewhat unique resources and capabilities. If a firm's core capabilities are scarce, durable, defensible or hard to imitate, they can form the basis for sustainable competitive advantage and surplus profit. They also need to be well aligned with the future key success factors of the industry, thus underlining the importance of consideration for employees as a resource before, during, and after business model change.

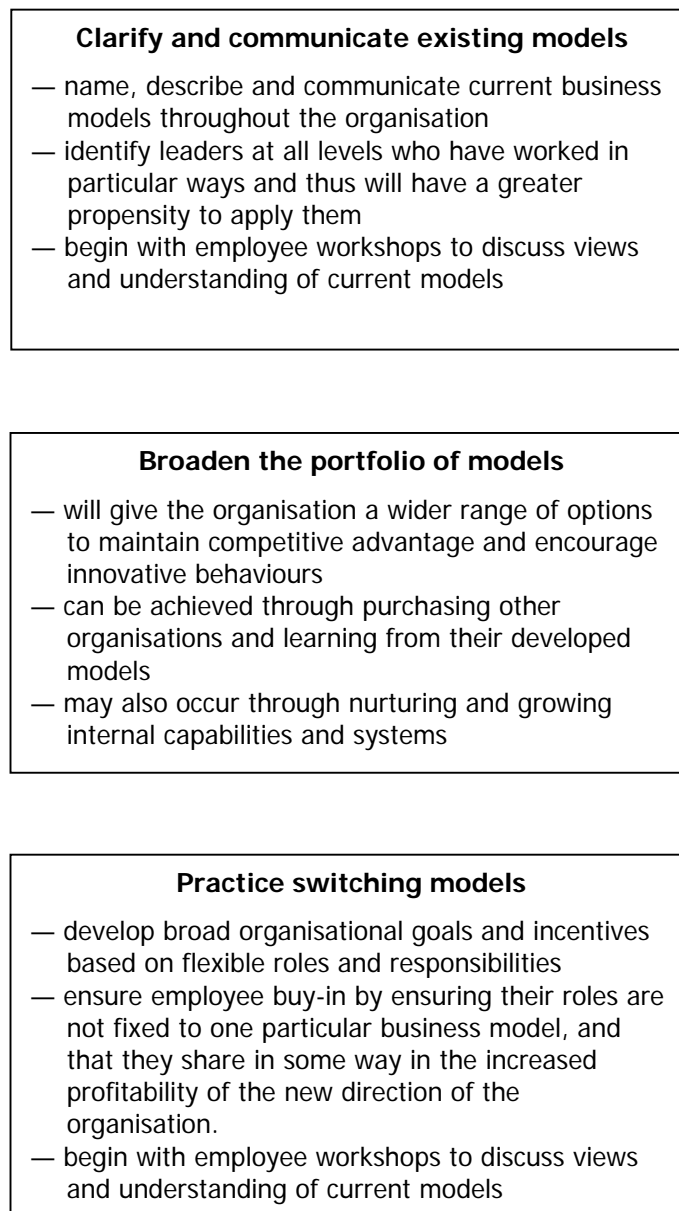
3.2 Building and maintaining a fluid change culture

Selecting and implementing one or more of the most common business model change tools is for many organisations a relatively easy task. Difficulty comes in managing and changing employee mindsets and the impact on organisational culture of any type of change, but particularly that of business model alteration or redirection. With regards developing a continually evolving business model process, three key stages can be seen as illustrated in Figure 3.2.

Business Model change and new organisational forms

Aldrich (1999) argued that organisational forms can be seen to serve three distinct purposes:

Figure 3.2: Business model process



Source: IES, 2005

- help identify and disseminate the collective aims of the organisation
- regulate the flow of resources into and out of the organisation
- identify and govern the duties, rights and functions of the individual members of the organisation and the organisation as a holistic unit.

(as cited in Sparrow and Cooper, 2003)

Theoretical frameworks would suggest that the development or evolution of new organisational forms in line with or in addition to business model change tend to be linked to technological change, innovation, market development, and other issues such as social movements and collective action. Where change either to the organisational form or the business model occurs, survey evidence indicates that there are several considerations for the change strategy, including:

- Change should always be rooted in demonstrable business need.
- Employee groups at all levels should be given access to the information regarding the business needs for the change, and also the anticipated benefits.
- A set of distinct objectives for the change, again intrinsically linked to the business need for change should be identified and publicised within the organisation.
- Many organisations report that a project management approach to change with SMART targets and objectives that are time defined.
- Significant attention needs to be paid to effective resourcing for the change process.
- HR implications are also imperative and the function should be involved in the initial decision making process.

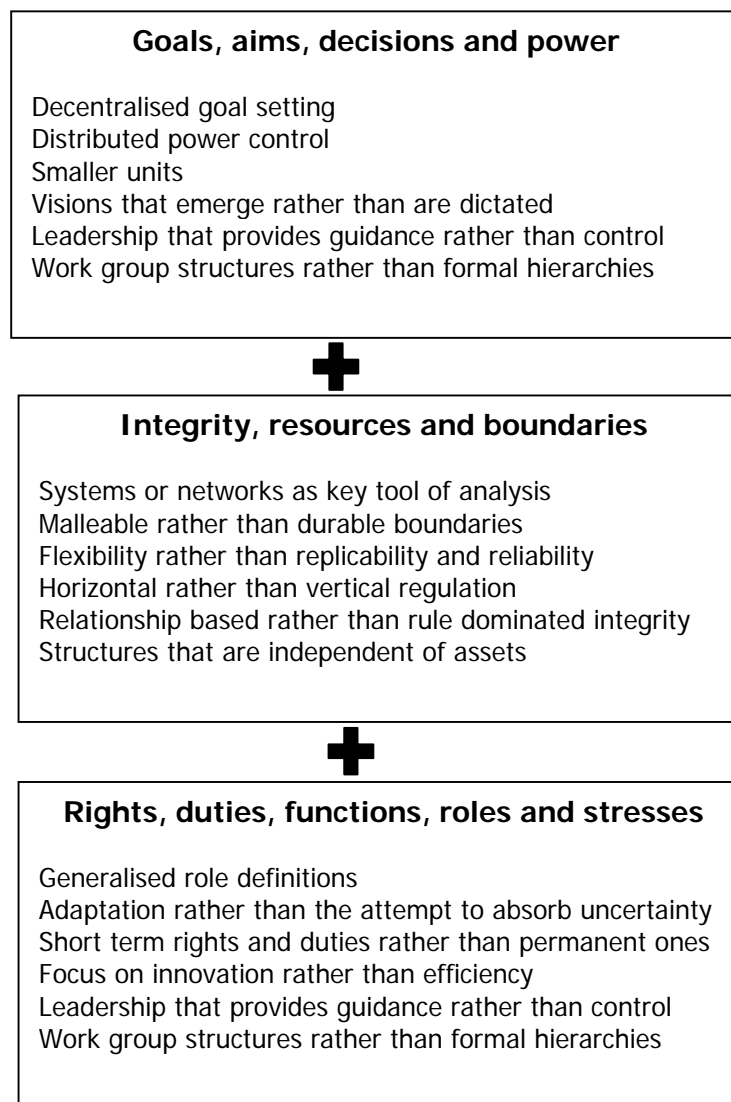
Identifying features of new organisational forms

When considering evolving organisational forms in relation to the impact on employees and the employment relationships within these companies, Child and McGrath (2001, cited in Cooper and Sparrow) identified three elements of these new organisations. Each area has subsequent actions or appropriate behaviours/ actions/characteristics that are thought to lead to continuing success after business model change. These elements are illustrated in Figure 3.3.

Leadership in changing cultures

Gannon (2004) notes that leadership places an integral role in any emerging business environment, as it is vital to 'influence staff to

Figure 3.3: Key elements of evolving organisational forms impacting on employees



Source: IES, 2005

buy into a future vision for the business where constant change and upgrading are the norm'

Clear and effective leadership in such times relies both on the individuals involved and also the strength and direction of the change strategy or vision. Visionary change in requires leaders who a capable and committed to:

- present the change plan and agenda in a coherent and inviting way
- maintain employee buy in or engagement throughout the process, and through any potential refinements in the change programme
- provide appropriate resources and support for all employees to adequately participate in the change programme.

A range of empirical research and countless anecdotal evidence indicates that personality and style have a huge impact on leadership effectiveness. In relation to business model change, key areas have been identified as imperative to a successful change process, which provide challenges for HR professionals who may participate such change (Figure 3.4).

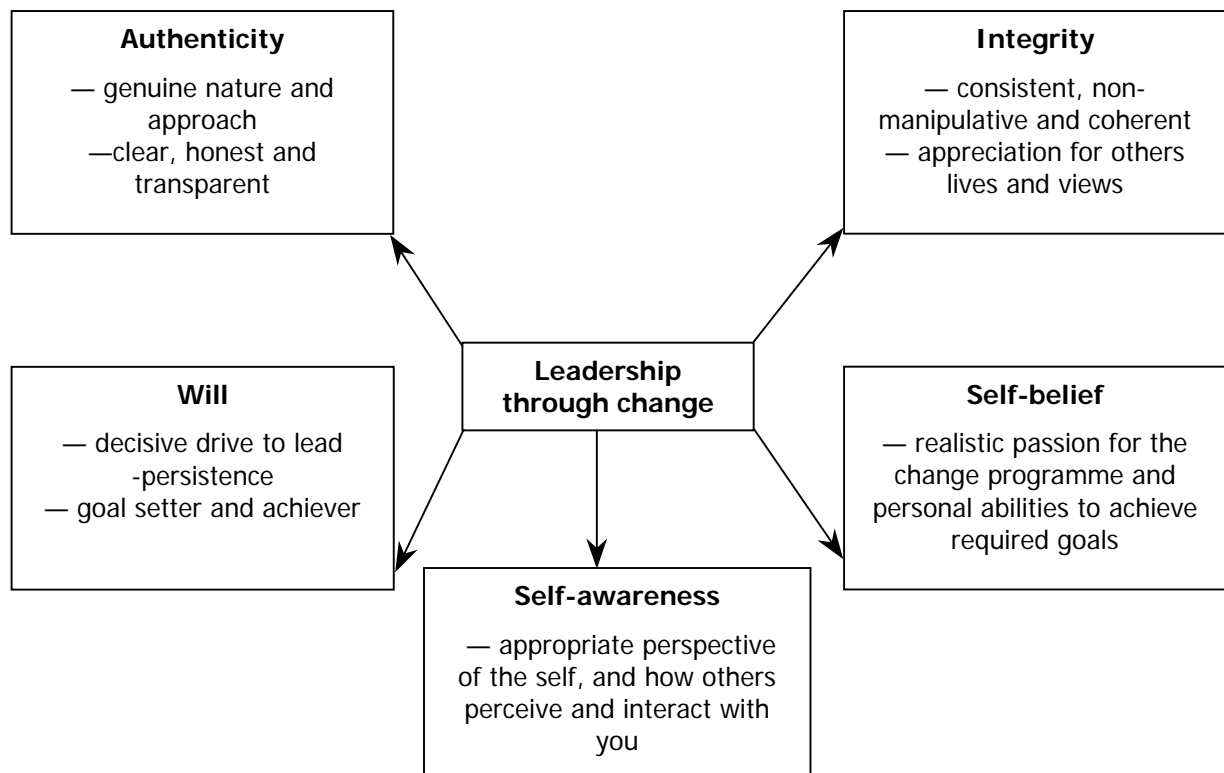
3.3 Business model change and employees

The effects of changing business models are yet to be empirically studied and to a large extent remain unknown. This is perhaps because of the shift to 'softer concepts' defining and regulating the employment relationship than had previously be seen, and which are by their nature difficult to measure in an accurate way. Key considerations include (but are not limited to) these:

- How do technological developments impact on employees?
- What kind of impact does organisational change have on the integration and distribution of roles?
- How do changes in the content of jobs (where applicable) affect remaining employees?
- What are the technological and training implications for co-ordinating functions and systems?

Potential employee issues that also need to be taken into account can be broadly defined as follows, in Figure 3.4.

Figure 3.4: Model of leadership through change



Source: IES, 2005

- Socio-political -- related to the potential development of a 'worker underclass' with lower wages, reduced benefits and compromised job security.
- Well-being -- concerns regarding work life balance, coping with potential new stresses, and the impacts of changing work environments and processes on physical and psychosocial health.
- Career and personal development -- positive and negative impacts on career progression, individualisation of roles and responsibilities, accelerated development paths and more effective use of individual capabilities.

This paper will predominantly focus on the psychological consequences of business model change, which most appropriately relate to the concepts of the psychological contract, stress in the workplace and employee engagement.

The example of the move to outsourcing as a method of business model change will then be examined in relation to the impact on employee perceptions, well being and psychological contracts in the workplace.

3.4 Psychological contract

The concept/term of the psychological contract was first developed by Argyris in 1960, and has been developed and written about many times since then. There are many definitions from many different writers. Schein defined it as 'an unwritten set of expectations operating at all times between every member of an organisation and the various managers and others in that organisation' (1980). Herriot and Pemberton see it as 'the perceptions of both parties in the employment relationship and the obligations implied in the relationship' (1997). Guest and Conway talk about 'the relationship between the individual and the organisation' (1999), whilst Coyle-Shapiro and Purcell define it as 'the individual's belief regarding the mutual obligations between themselves and the organisation'.

The psychological contract is based on exchange of benefits and rewards. The employer benefits from the employee's labour and the employee is rewarded accordingly (pay or promotion). Rousseau (1995) tells us that mutuality is key and that it is only when both parties have something to gain that it will be successful, and to balance the contract both parties must feel that it produces valued outcomes (employer getting the job done and the employee being satisfied and rewarded).

Of particular interest is how such psychological contracts are formed, maintained and evolved over time within organisations, alongside how they may indeed be dramatically affected in times of significant organisation change or restructuring. Guest and

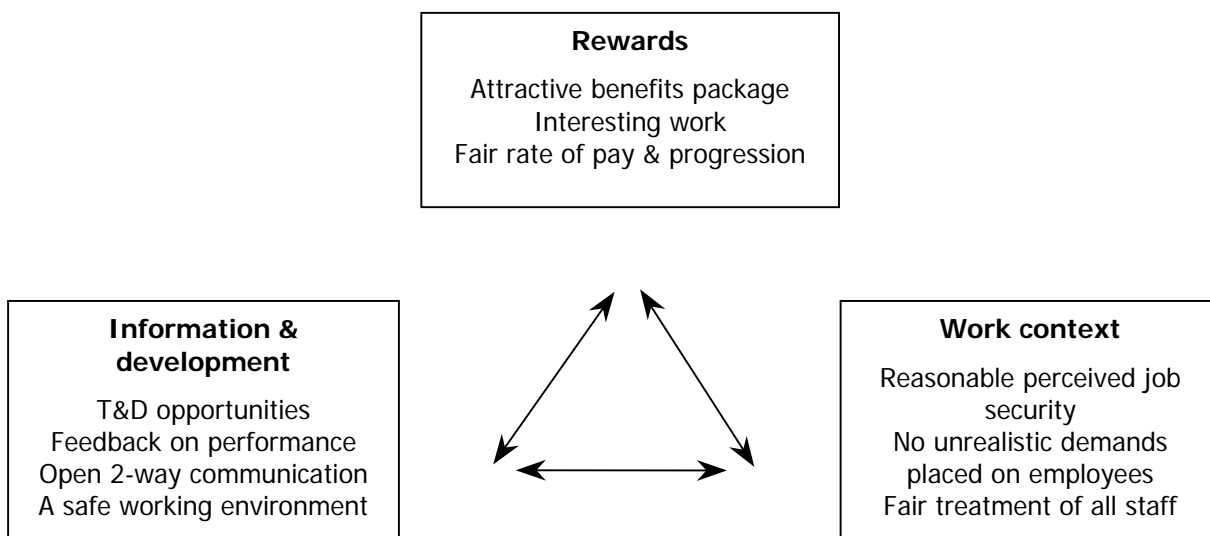
Conway (2001) conducted research into the composition of psychological contracts in a large group of UK based employers and found that key elements related to the promises and commitments made by organisations to their employees, whether these were written, oral or indeed assumed. Three distinct categories emerged and were identified as those illustrated in Figure 3.5.

Within and between these groupings there are marked differences in how such factors are incorporated into each organisation's view of their psychological contracts with employees. The extent to which promises are made explicitly, be this written or oral depends on the component in question. For example it was found that typically organisations are considerably more cautious about making defined promises about rewards, yet are more willing to do so with elements such as the context of the working environment and information and development. Unsurprisingly, Guest and Conway found a clear inhibition to make direct promises about interesting work or workloads themselves. In this survey, 28 per cent of responding organisations made seven or more written or oral promises to their staff which constituted their psychological contract. The most likely elements to be explicitly addressed included:

- safe working environment
- fair treatment
- well informed regarding organisational practice, direction and their own performance
- provision of T& D opportunities.

In contrast, there were several factors that were significantly less likely to be addresses in formal promises either on a written or

Figure 3.5: Composition of psychological contracts



Source: IES, 2005

oral level. These tended to relate to:

- job security
- interesting work
- levels/nature of demands placed on employees
- workload.

Differences in the composition of psychological contract could also be seen between different types and sizes of organisation, indicating that structure and employee numbers may well play a role in their development.

Statistical analysis of the survey results suggests that the strongest correlation is to be found between the number of defined and implemented HR practices and the subsequent number of explicit promises made. In other words, the effectiveness of people management processes is highly influential in shaping the psychological contract.

3.4.1 Keeping and exceeding the psychological contract promises

Intuitively implied and certainly explicit promises that form the psychological contract are only worth building if they are adhered to from both the employer and employee side. The extent to which these are actually met remains somewhat debatable, and indeed this has formed a major research question in recent years. Again, in survey-based research with a large group of UK employers, Guest and Conway, asked organisations to indicate the extent to which they felt the promises made, whether these were explicit or implicit had been met. The results indicated some interesting features:

- Management was generally tentative about describing promises as being fully met or exceeded.
- Promises relating to information, employee involvement and development are more likely to be honoured.
- Promises regarding interesting work and reward packages are least likely to be described as being met.
- Promises were very rarely thought to be exceeded.

Earlier data (1999) regarding employees' perceptions of the adherence to promises indicated that they felt their organisations were most likely to meet, or had indeed met or exceeded, their promises in the following areas which may be of particular interest when considering organisational change:

- job security
- career development
- fair pay.

Again, some organisational differences appear to exist in the extent to which psychological contracts are honoured. For example, both employer and employee perceptions of the psychological contract were poorer in the public compared to the private sector. With regards to organisational size, increased numbers tend to lead to reduced adherence to the psychological contract, though this is somewhat counterbalanced in organisations with union involvement, where developing and honouring key promises to employees took on a greater level of importance.

Again, the development and implementation of clearly defined HR practices seems to have a significant impact on the extent to which promises are kept. This emphasises the need to develop and, as importantly, deliver people management practices. Key areas that were identified included a greater use of 'involvement related processes', and 'personnel techniques'. These mechanisms are generally linked to communication methods and channels, organisational climate and cultural effects.

3.4.2 Defaulting on the psychological contract promises

Guest and Conway (2002) cite continuing and accelerated organisational change as a key factor in the growing interest in the psychological contracts. The nature of reciprocal obligations is likely to change with the organisations' attempts to respond to external threats and internal pressures. Business model change would certainly threaten the nature of the psychological contract. Such contracts are under this pressure frequently and widely violated by employers. Employers may renege on their original or accepted responsibilities within the psychological (and indeed legal) employment contracts.

Herriott (1997) argues that the implications of any such violations are often severe enough to require remedial action which may include significant renege-otiations of the psychological contract. Within a climate of organisational or business model change such actions may include taking more seriously the reality of psychological contracts, perhaps by consulting with employees regarding roles and working practices that would best suit their skills and lives, as opposed to enforcing new structures and systems with little or no employee involvement. (Herriot *et al.* 1997).

In 1998, Coyle-Shapiro and Kessler found employees' psychological contracts in the public sector can also be dependent on 'how the employer is seen to have fulfilled its obligations to employees', whether this is implicit or more explicit. More recent survey evidence from IRS (2002), indicate that 61 per cent of respondents from 65 major UK employers had heard of the terminology relating to and describing psychological contracts, and generally associated the concept with some or all of:

- unwritten, implicit and implied obligations on both the employer and employees part
- consequential behavioural expectations from both sides
- intrinsic links to organisational culture, structure and function.

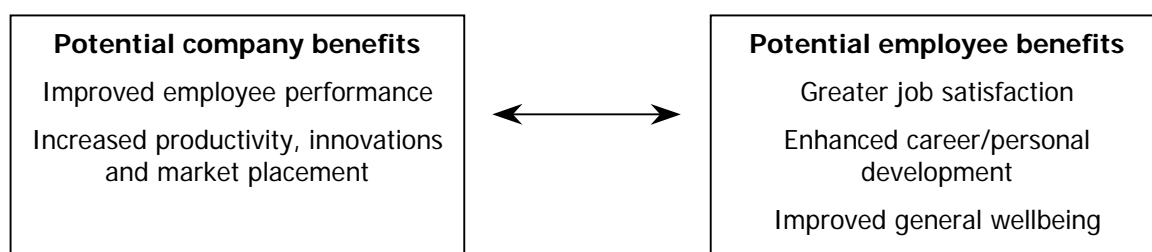
3.4.3 The importance of psychological contracts

Employer contract fulfilment, both legally and psychologically, is contingent to trust in the employer, which is intrinsically linked to job and organisational commitment and satisfaction, intention to remain with the organisation, organisational citizenship behaviour and overall employee engagement and performance. The importance of psychological contracts to the development and indeed evolution of high performance organisations is widely accepted both within the academic community and the HR profession alike. When considering any organisational or business model change, Boddy, (2000) notes that psychological contracts need to be ‘regularly reviewed and renegotiated’.

The effects of change over time within increasingly shifting business environments and cultures inevitably require organisations to be continuously aware and proactive in involving employees in developing and maintain appropriate definitions and boundaries for their psychological contracts. Indeed, the element of ownership for employees with regards to psychological contract negotiation would appear to play a key role in the success of change programmes from the employee perspective. Boddy goes on to suggest that almost continual re-negotiation of the contract during such phases is required in order to maintain employee ‘buy-in’, and ultimately to minimise the potential gaps that can occur in expectations. Potential benefits of the organisational or business model from both perspectives, include those shown in Figure 3.6.

Unsurprisingly, communication is imperative to this process, and indeed to the overall success of the business model change programme in relation psychological contracts. Of key importance is fostering concepts that are relevant to the new organisational structure and future direction of the company, whilst also being contingent with the employee view of themselves as part of that

Figure 3.6: Comparison of benefits: organisational and business model



Source: IES, 2005

process. For example, IDS work revealed a number of factors that may be particularly relevant in this process.

A pertinent example is that of the employee's concept of their role, and likely developments for this. IDS suggested that the employees should be encouraged to see the new organisational structure as offering 'employability' rather than a job for life. The notion of employability relates to the employees' opportunities for personal and professional development, in line with their need for flexibility and reactivity should the business situation require it, or indeed should they need to look elsewhere for employment. This may involve employers offering increased training opportunities in times of change, in order to develop a workforce with a broader range of applicable skills, knowledge and competencies in order to perform better in an evolving organisation.

3.4.4 Business model change and psychological contracts

It is now widely accepted that the development and communication of the psychological contract is imperative to its success and to the overall employment relationship within the organisation. Communication of this may be embedded within mission statements, visions and values, possibly alongside explicit statements in legal contracts. The maintenance of stability within the organisation as it approaches and goes through any significant change is likely to impact highly on the employees' perception and actuality of the psychological contract.

Common sense and empirical evidence would purport that appropriate management of 'human factors' during times of change are vital, and where these are badly managed, or ill communicated, such change programmes are often deemed to have failed. Hubbard and Purcell (2001) found that with regards to organisational acquisitions, failure was largely attributable to inappropriately managed employee expectations, and thus adverse employee reactions.

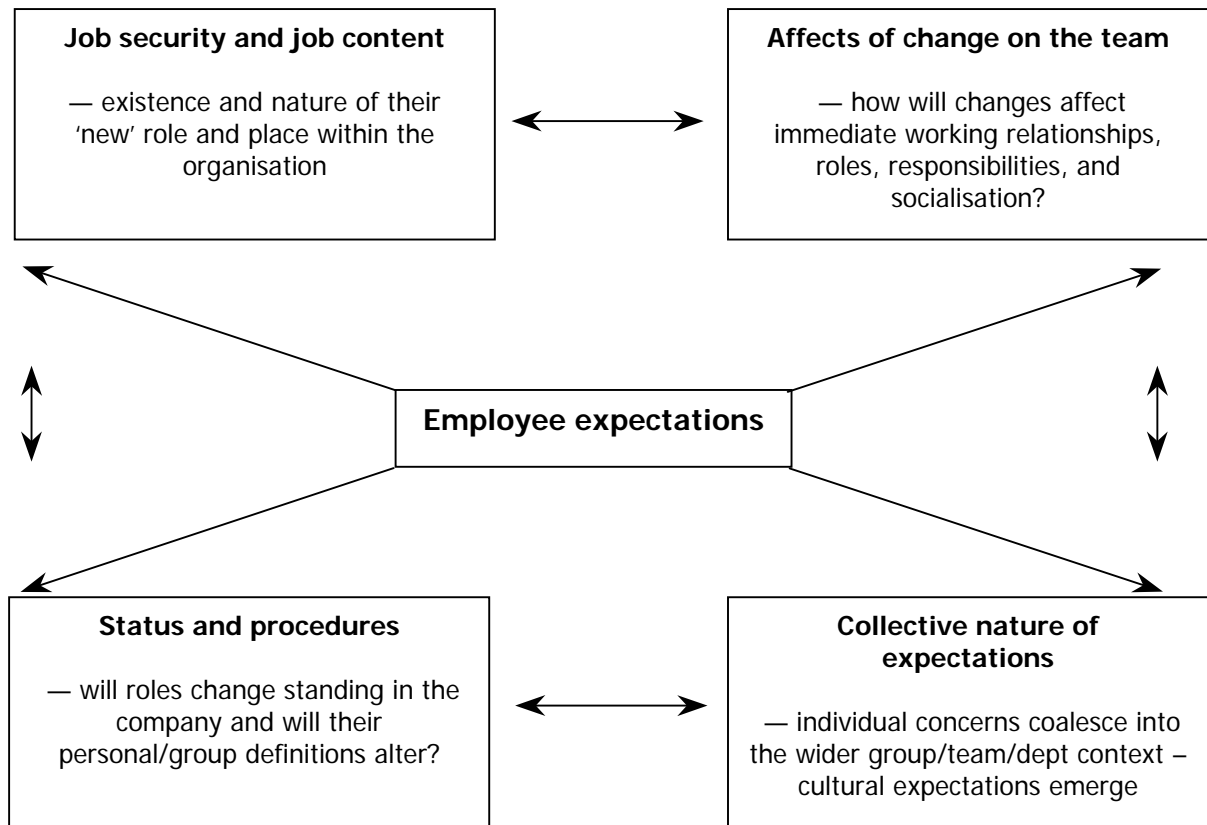
Expectations can be defined as:

'The beliefs individuals hold about what leads to what in an environment.'

(Porter, 1957 as cited in Hubbard and Purcell)

Considerable empirical evidence exists relating to the effects of employee expectations during and after recruitment and organisational restructuring. Relatively little has been done as yet to investigate the role that expectations play in any form of business model change, yet the potential outcomes of business model change include both restructuring and changes in recruitment. Related work is of relevance and should be carefully considered when approaching any form of business model change.

Figure 3.7: Key elements for employees in times of change



Source: IES, 2005

Hubbard and Purcell note that there are likely to be four key elements that make up the composite expectations that employees hold through times of change and/or development. These are seen to be largely differentiated between personal and group expectations, and are thought to be mediated both by the type of employee and the degree of business integration between the 'old' and the 'new' organisations.

4. Communicating and Shaping Expectations through Organisational Restructuring: Downsizing

Business model change has potential consequences relating the size, shape and structure of the work force. This may have an implication of downsizing. With communication identified as a key factor in the success of a downsizing strategy, Appelbaum and Donia developed the Realistic Downsizing Preview (RDP), which was '*proposed as a downsizing communication package*'. Based on the Realistic Job Previews, developed by Wanous (1973, 1978, 1980), the RDP seeks to provide a framework for eliciting more positive responses from employees involved in the downsizing process, by providing a framework for communication prior to the event. This approach proposes that individuals are able to form more appropriate coping strategies when they are aware of events in advance, rather than attempting to deal with surprise changes. This approach seeks to alleviate the pain of downsizing, by preparing the organisation for the potential events and emotions which may occur, and as such is a proactive, rather than reactive method.

The RDP is designed from the same perspective as its predecessor, the RJP which attempts to introduce new employees to the actual realities of the job they are to begin, which in turn creates more realistic expectations, and generally less negative experience once the job begins. By giving small amounts of the realities of the job and organisation in the recruitment stage, initial expectations are lowered, as is subsequent employee turnover, (Premack and Wanous, 1985). Employees who receive RJPs tend to experience higher levels of job satisfaction and organisational commitment, coupled with reduced stress levels. The four key components of the RDP aim to provide employees with as accurate and honest a perspective as possible with regards to upcoming changes, and is intended to reduce the negative impact of downsizing throughout the organisation, and the achievement of organisational objectives.

A fundamental objective of the RDP is directly affecting the perceptions of fairness in the downsizing process and perceptions of future treatment of both those who remain with, and are released from the organisation. this is based on promoting timely, accurate, and thorough communication as discussed, coupled

with dignified and respectful treatment of all employees regardless of their employment status. The RDP seeks to re-establish the psychological contract between surviving employees and the organisation, and due to the continuous level of involvement of all employees at the various stages of the downsizing process, they are considered more likely to perceive themselves as active stakeholders in the process. Clearly the nature and process of communication will vary considerably dependant on the corporate culture and structures already in place, but the focus on honest, transparent and forward looking information flows should not differ between organisations. Appelbaum and Donia propose that the RDP should be initiated immediately after the decision to downsizing is made, and indeed many argue that it should form the integral framework for the entire downsizing procedure, from conception to full implementation.

Fundamentally, the RDP involves four key issues: strategic issues, issues for all employees, issues for terminated employees, and issues for survivors.

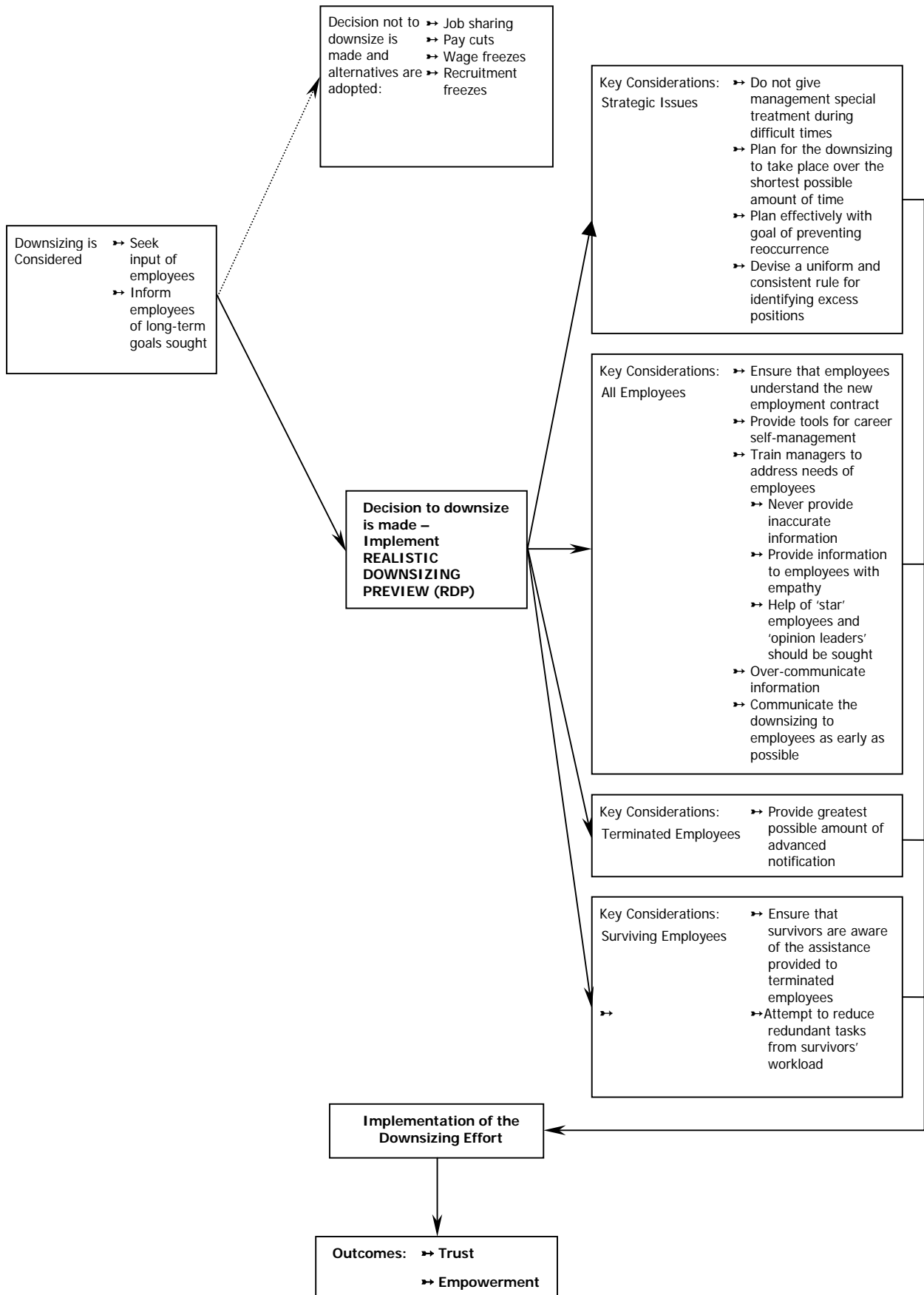
4.1 Why morale matters

Of course employees will feel unsettled during downsizing. However, just accepting loss of morale as an inevitable consequence may undermine the very productivity gains intended by the change. Employers should seek to minimise the unwanted impact of downsizing. They also need to recognise the extent to which the manner of managing such change affects how employees feel about the change, and their future relationship with the company (Kettley, 1995).

Downsizing can threaten employees' sense of well being in several ways. They may see the company as having behaved unjustly or unfairly. They obviously feel less secure. They may also lose the belief that their contribution to the business will be rewarded in future. These responses may easily threaten business performance. Survivors of downsizing can become unduly risk averse and narrowly focused, and therefore less creative and open to change. Employee 'morale' is not a simple concept, and should be held in very high consideration during any business model change process. It consists of many facets and may be manifest in many outcomes. These outcomes include:

- whether employees stay with the organisation
- whether they achieve organisational or personal goals
- whether they are able to adopt new working practices and learn new skills
- how they respond to customers.

Figure 3.8: Realistic downsizing preview



Source: Career Development International, 2001

Appelbaum and Donia make clear distinctions between the needs and issues facing the terminated or released employees and their surviving peers. Such needs need to be identified, approached and addressed in different ways, but should form the overall employees management strategy for the organisation as a whole. The relationship between the organisation and both groups of employees will be altered in a diverse and far reaching manner, and it is this change that requires considerable attention in order for the objectives of the downsizing to be adequately met. On a broad level, employee issues identified by Appelbaum and Donia included (but are not limited to):

1. A new working relationship which is independent from the previous employment and psychological contract. Key elements to address are:
 - increased career self-management
 - greater emphasis placed on overall employability security (as opposed to employment security).
2. The provision of and access to resources for increased career self management and self direction. Key elements to address are:
 - encouraging skills development -- evoking a sense that the employee's commitment to the organisation is reciprocated regardless of the downsizing decision
 - access to a range of career related resources (library facilities, careers counselling and online job vacancy access all identified as positive practical steps)
 - thorough training for all managers to communicate and deal with arising issues for all staff members.
3. Avoidance of inaccurate or misleading information -- Noer (1993) found that the success of organisations emerging after downsizing is strongly correlated with employees' assessment of organisational integrity.
4. Transparency, 'open-door' procedures and the physical presence of management on 'the shop floor'. Key elements to address follow:
 - Information should always be presented in a honest way to all employees, and coupled with genuine empathy, concern and compassion, with managers exhibiting a genuine desire to address the issues facing all employees.
 - Over-communication of information -- involving employees in proceedings and keeping all areas of the organisation regularly updated in a variety of ways (emails, bulletins, newsletters, personal contact) -- will help to dispel feelings of mistrust, anxiety and will assist in involving all employees in the proceedings.

5. Outsourcing and the Employee

The move to outsourcing has considerable legal and employment consequences as well as the immediate cost and administrative demands. When making outsourcing selection, organisations place obvious importance on quality of service and price issues as key factors for consideration. The question remains as to whether the assessment of employee perceptions and experiences are high enough on the outsourcing agenda.

5.1 Employee perceptions and experiences

The views of employees and those involved at all levels and stages of the outsourcing process are vital to its success, and to the future shape of the organisation. Coyle-Shapiro and Purcell studied the perceptions of those affected by significant changes in HR structures and systems including outsourcing. Their research was directed at addressing imperative issues concerning HR focus on employee wellbeing and the continuing quest for factors affecting employee commitment to the organisation.

Purcell, (1996, p. 22) notes that 'We lack the research to make definite statements on the effect of outsourcing on employees' and goes on to identify two key areas of interest. Firstly attention should be paid to the negative and destabilising effects that outsourcing could well have, alongside assessing the beneficial effects of outsourcing on employees and the organisation alike. Also of particular interest is the manner in which the trend towards outsourcing has, and will continue to affect and indeed shape employment patterns, and established agreements on pay and hours.

The need for careful and empirical examination of the effects of outsourcing has been highlighted by significant industrial relations concerned surrounding the growing use of outsourcing. Indeed, in 1994, both the organisations (BAE and The Inland Revenue) signing the largest outsourcing deals in the UK experienced staff strike action. Clearly the attribution of such action purely to the outsourcing deals is tenuous at best, and whilst this is not a substantiated conclusion the relationship between employee attitudes, satisfaction and commitment and the organisation's

outsourcing activities is of utmost importance to any company considering such a move.

The complexities surrounding the potential impact of outsourcing on employees include (but are not limited to):

- process of change management
- tightness of contract specifications
- boundaries of work
- the actual form taken by outsourcing
- communication channels
- job redesign
- legal and confidentiality concerns
- compatibility of service provider with corporate culture.

Once again, corporate size, structures and cultures may have a moderating effect on such issues, and their presence is likely to vary greatly between organisations, and economic climates. Purcell went on to identify three potential positive outcomes for employees of outsourcing:

1. may provide greater career and training opportunities
2. may provide a greater degree of stability and predictability
3. allows access to economies of scale, perhaps with associated financial gains.

Regardless of these factors, there remains relatively little empirical evidence regarding the perceptual, attitudinal and subsequent behavioural outcomes of outsourcing on the employee.

Outsourcing therefore poses an interesting challenge to the development and maintenance of psychological contracts as at least theoretically it involves the integration of new structures and systems, and possibly even new legal contracts. Employee treatment in relation to a number of key dimensions is thought to have a direct impact on the employment relationship and future attitudes and behaviours.

Coyle-Shapiro *et al.* argue that there are three broad factors affecting employee perceptions of and reactions to the move towards outsourcing:

1. the context in which outsourcing occurs and how employees feel they are treated by the organisation
2. how attractive employment under or alongside the outsourcing service provider is perceived to be
3. the reality of employee experiences following outsourcing.

Just as the utility of outsourcing varies between organisations dependent on risk seeking/averse cultures, structures and size, the importance of these, and indeed other factors that is felt by employees during their experience of outsourcing is likely to vary widely. Three primary 'pull factors' were also proposed:

1. the identity of potential suppliers
2. the way in which information about provider is gathered and communication including the way the provider was selected
3. employee views on the substance and quality of products/ services offered.

5.2 Identity of outsourcing suppliers

The identity, values, culture, track record and client base of the vendor may well impact significantly on employee perceptions of, and subsequent experience of and attitudes towards, outsourcing. Of particular importance to employees in this area is the appropriateness and transparency of the tendering and selection processes, the congruence of the suppliers values with those of the organisation, and the way in which the new systems and structures will be managed.

5.3 Generating and presenting outsourcing information

As with any form of organisational change, appropriate communication of the processes is crucial in shaping employees' perceptions of outsourcing, and indeed ultimately their experience of the process. Communicating decisions effectively may enhance staff involvement and their perception of ownership and inclusion in the move to outsourcing. Ultimately, outsourcing of any nature is likely to have some effect on the working and personal lives of employees, and as such, their 'buy-in' is essential.

Employers may also need to be aware of the reciprocal relationship that may exist, whereby communication aids adjustment to and experience of the outsourcing process, which in essence enhances the success of the outsourcing strategy itself. Examples of communication methods may include briefing sessions, focus groups, or committees, also enabling union involvement. Whatever the method employed, there is a necessity for this to be done genuinely and as an important component in the move to outsourcing, as employees' attitudes are intuitively likely to be dramatically affected if it is felt communication is inadequate or not grounded in actual concern for employees' views. Again this raises general questions about the communication networks and propensity for inclusive communication within the organisation.

Clearly, despite extensive communication programmes there logically may have to be limitations on staff involvement in all aspects of the decision making programme, due to size and

complexity of the organisation, and a need for the process to be centrally driven. Coyle-Shapiro *et al.* suggest that it is not in essence the active involvement in the decision making process that may have far reaching effects on employees, rather that the information is openly and honestly presented, and the rationale for decisions made is clear and fair. Where decisions are still to be made at board level, situations when employee input is sought but counts for relatively little, can cause far more damage than a total lack of employee involvement. Several reasons can be identified why employee engagement with the outsourcing process may not be achieved, or not to a high degree:

- Management do not explicitly seek out staff input (their general approach?)
- Staff input that is received is rejected or discarded.
- staff may only be able to speculate on ' what life may be like'.

5.3.1 The reality of outsourcing for employees

The reality of outsourcing for employees is dependent on the stability and suitability of the outsourcing offering, and how the staff feel treated when outsourcing actually occurs. For the organisation, this again presents a time investment challenge in presenting open and honest information, with the clear need for consideration of employee concerns and their involvement in the outsourcing process.

'Calming legitimate concerns, whilst not reinforcing or exacerbating those worries.' Coyle-Shapiro et al, p. 11

Communication needs to become a strategic element of corporate policy when making any change, in order to gain higher levels of employee-buy-in, and thus improve the likelihood of success for the change programme. This is of particular importance in relation to outsourcing, as, in some situations, it is increasingly likely to involve or lead to significant organisational restructuring and/or workforce reductions, job redesigns, and potentially dramatic changes in employees' working lives.

The actual reality of the employee's experience of the outsourcing programme is likely to relate to three key dimensions:

- the general approach adopted by the vendor
- specific changes in the terms and conditions of employment (both legal and psychological contracts)
- the perceived effect of outsourcing on the broader organisational development and how the organisation is seen to evolve after the move to outsourcing.

5.3.2 Studying employee attitudes

'If, as suggested, employee perceptions of their treatment have significant attitudinal and behavioural consequences, the views of staff on what at first sight appears to be the highly disorientating process of outsourcing emerge as being of particular importance to policy makers and practitioners as well as academics.' Kessler, et al

Given the potential effect that outsourcing can have on employees, it is becoming an increasingly pertinent research and consultancy question to assess the kinds of factors that may effect employee perceptions and experiences of outsourcing programmes. The work of Coyle-Shapiro *et al.* suggests a congruence between employee perceptions of outsourcing and how they feel the existing or previous system works, how well informed and engaged they are in any changes, the substance of the new offering and the management of the transfer process.

Employee attitudes in this, as any area, are likely to be highly complex and indeed multi-faceted. Expectations and experiences of outsourcing are thought to be highly dependent on the reality of the current system and the level of satisfaction/dissatisfaction that employees feel towards this. If the existing system is perceived negatively, then intuitively the move towards an outsourced service is likely to be positively viewed by employees, but organisations need to be aware of the effect that this has on employee expectations. The meeting of expectations, both at an organisational and individual employee level is fundamental to the perceived success of any such change process, but has significant importance in the move to outsourcing HR services. Examining expectations in relation to outsourcing involves assessing these are realistic, voiced and finally the extent to which employees feel these are met appropriately. Dissonance between employee expectations and the actual realities of outsourcing may prove to be more damaging to the success of the programme than where expectations although low are in line with the outcome.

In assessing employee perceptions of outsourcing, Coyle-Shapiro *et al.* also highlight the importance of noting differences in views, however subtle these may appear to be, as these may relate to very specific areas of the outsourcing offering. Indeed one of the primary findings of this study was the need for organisations to not oversimplify or assume employee perceptions, and further more to fully appreciate the multi-dimensional nature of such views.

Further work in this area could seek to look more directly at employee perceptions of both their legal and psychological employment contracts in relations to changes such as outsourcing, and perhaps ways in which such perceptions can change either naturally or by organisational influence.

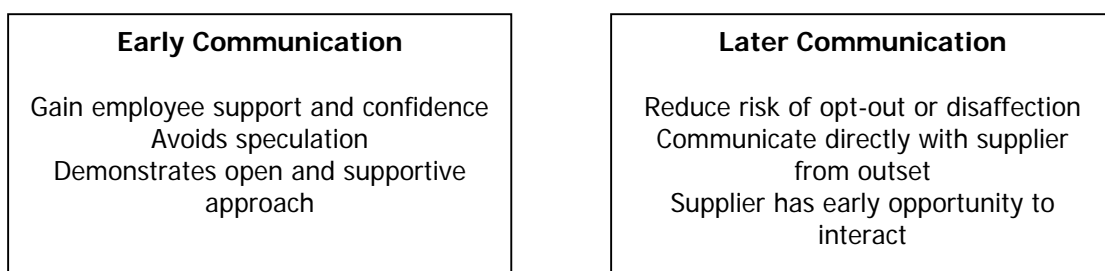
5.3.3 Communicating change

With communication identified as a key driver to employee perceptions of outsourcing and its subsequent success, how can this be most appropriately carried out? Reilly and Williams (2003), note two directly contrasting positions; early vs. late communication (Figure 3.9). Both positions are seen to have inherent advantages and potential pitfalls, and the strategy employed will need to be tailored to the exact needs, culture and objectives of the organisation.

Legislation both at a national and industry level is likely to direct the timing and manner of communication at least to some extent, although this will of course vary dependant on the nature of the change involved. However, under the TUPE (Transfer of Undertakings Protection of Employment) Regulations 1981, reviewed 2003, employees or their representatives must formally be informed of:

- the fact of the transfer
- the approximate timing of the change
- the reasons behind the change
- the legal, economic, and social implications that the change may have for those considered to be 'affected employees'
- the 'measure' if any the transferee envisages they will take in connections with the transfer , for those whole will become their employees
- the 'measures' if any that the transferor 'envisages' they will take in connection with the transfer
- Where 'measures' are foreseen there is an additional legal obligation to go further than informing employees, and actively consulting with them, which in specific terms, must be 'with the view to seeking their agreement to measures to be taken'. Again this emphasises the legal as well as ethical need to involve employees proactively in the decision making and transition process.
- Appelbaum and Donia (2001) developed the Realistic downsizing Preview (RDP), as a descendant of Wanous'

Figure 3.9: Comparison of early versus late communication



Source: IES, 2005

Realistic Job Preview model, both of which purport that advance communication, and indeed as honest a view of what 'life will be like' after any such transition, is likely to assist employees in forming realistic expectations, and thus these expectations being more likely to be fulfilled. As previously discussed the appropriate fulfilment of expectations is likely to lead to greater levels of satisfaction, employee buy-in, and consequently greater success of the process itself.

Employees who receive RJPs tend to experience higher levels of job satisfaction and organisational commitment, coupled with reduced stress levels. The four key components of the RDP (strategic issues, issues for all employees, issues for terminated employees, and issues for survivors) aim to provide employees with as accurate and honest a perspective as possible with regards to upcoming changes, and is intended to reduce the negative impact of downsizing throughout the organisation, and the achievement of organisational objectives. Although designed to address the issues related to downsizing, this structure may also be highly applicable to outsourcing moves, as job contents, roles and systems are likely to be significantly changed.

Appendix: Information Sources and Further Reading

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