

The Employment Relationship

Key concepts and terms

- Agency theory
- Exchange theory
- Labour process theory
- The pay–work bargain
- Procedural justice
- Relationship contract
- Trust
- The employment relationship
- High trust organization
- Mutuality
- Pluralist framework of reference
- Psychological contract
- Transactional contract
- Unitary framework of reference

Learning outcomes

On completing this chapter you should be able to define these key concepts. You should also know about:

- Basis of the employment relationship
- What is happening to the employment relationship
- Developing a high trust organization
- Employment relationship contracts
- Managing the employment relationship
- Theories explaining the employment relationship

Introduction

The employment relationship is one that is established whenever employers and employees work together. A positive employment relationship is required, one in which there is trust and mutuality – the state that exists when management and employees are interdependent and both benefit from this interdependency. Such a relationship provides a foundation for employment and employee relations policies, including the development of a climate of mutual trust. It governs much of what organizations need to be aware of in developing and applying human resource management and employee relations processes, policies and procedures. These need to be considered in terms of what they will or will not contribute to furthering a productive and rewarding relationship between all the parties concerned. This chapter describes the employment relationship, how it is managed and how a climate of trust can be created. Theories about the relationship are summarized at the end of the chapter.

The employment relationship defined

Organizations consist of employers and employees who relate to one another. This is the employment relationship, which may be expressed formally by what Rubery *et al* (2002) regarded as its cornerstone, namely the contract of employment. In law an employee is someone working for an employer who has the ultimate right to tell the worker what to do. In the UK, the Employment Rights Act (1996) defines an ‘employee’ as a person who works under a contract of employment, the tacit assumption being that ‘the employer’ is the other party to the contract. This is sometimes called ‘the pay–work bargain’. The employment relationship can additionally be defined formally by such means as procedure agreements and work rules.

But the employment relationship is also an informal and constant process that happens whenever an employer has dealings with an employee, and vice versa. Underpinning the employment relationship is the psychological contract, which expresses certain assumptions and expectations about what managers and employees have to offer and are willing to deliver. This is discussed in more detail in Chapter 16. The dimensions of the employment relationship as described by Kessler and Undy (1996) are shown in Figure 15.1.

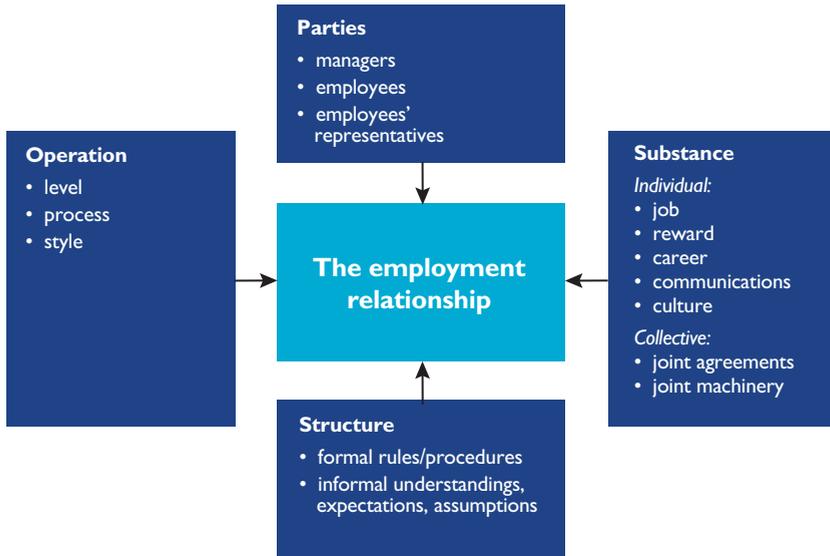


Figure 15.1 Dimensions of the employment relationship

The basis of the employment relationship

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

The employment relationship exists at different levels in the organization (management to employees generally, and managers to individual employees and their representatives or groups of people). The operation of the relationship will also be affected by processes such as communication and consultation, and by the management style prevailing throughout the organization or adopted by individual managers.

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

of interest between employers that want to control compliant and high-performing employees and the employees who want to maintain their rights to ‘a fair day’s pay for a fair day’s work’.

Employment relationship contracts

Two types of contracts defining the employment relationship have been distinguished by MacNeil (1985) and Rousseau and Wade-Benzoni (1994), namely relationship contracts and transactional contracts.

Types of employment relationship contracts

- Transactional contracts are formal contracts that have well-described terms of exchange between employer and employees, which are often expressed financially. They contain specified performance requirements.
- Relational contracts are largely informal contracts with more abstract terms and refer to an open-ended membership of the organization. Performance requirements attached to this continuing membership are incomplete or ambiguous.

There is also the psychological contract, which is implied rather than stated.

More specifically, the employment relationship is governed by express agreements between employers and employees including contracts of employment, the terms implied by common law and statutory requirements.

Express agreements

Express agreements consist of written contracts of employment but they may be conveyed orally at an interview or even set out in an advertisement. In addition, express terms may be included in collective agreements or works rules.

Contracts of employment

A formal contract is an agreement between two or more parties which the law will enforce. The essential elements that have to be present to make a contract enforceable are as follows:

- there must have been an offer by one party that has been accepted by the other party;
- there must be an intention to create legal relations;

- the terms agreed by the parties must be sufficiently certain to be enforceable;
- the agreement must be supported by consideration (ie some form of payment).

Contracts contain:

- express terms – those defined in writing or orally (eg pay, hours, holidays, pensions);
- implied terms – those that can be implied into the contract of employment by nature of the relationship, by the conduct of the parties or by custom and practice (note that an implied term cannot override or exclude an expressly agreed term or a term expressly included by statute);
- terms implied by statute – the duty of the parties to conform to statutory law.

Contracts may also include a statement of the duties involved in the job, ideally with a flexibility clause such as: ‘the employee will perform such duties and will be responsible to such person, as the company may from time to time require’. In certain cases it may be stated that: ‘The employee will work at different locations as required by the company.’

Contracts may consist of one or a number of documents:

- the letter of appointment;
- a written statement of express terms;
- other documents, such as staff handbooks, works rules, or collective agreements that are incorporated into the contract by being expressly referred to in the letter of appointment or written statement.

Common law

The common law obligations of employers include the duty to pay wages, provide work, cooperate with the employee, and take reasonable care of the health and safety of the employee. Employees, in turn, are expected to cooperate with the employer, be faithful to the employer, and take reasonable care in performing their duties.

Statutory requirements – written particulars

Written particulars (a statutory statement) of the main terms and conditions of employment must be given to all employees who work eight or more hours a week, within two months of starting work. Changes to terms have to be notified individually. The written statement must contain or refer to particulars of the following:

- the name of the employer and the employee;
- starting date;

- commencement of continuous service;
- the scale or rate of remuneration, or the method of calculating remuneration;
- the intervals at which remuneration is paid (eg weekly, monthly);
- hours of work and normal working hours;
- entitlement to holidays, including public holidays;
- entitlement to holiday pay, including entitlement to accrued holiday pay on terminating employment;
- provision of sick pay, if any;
- pensions and pension schemes;
- the length of notice the employee is obliged to give and is entitled to receive to terminate his or her contract of employment;
- the title of the job the employee is employed to do;
- the disciplinary rules that apply to the employee (or reference can be made to a document specifying these rules, which is reasonably accessible to the employee);
- in firms with 20 or more workers, employees will be entitled to additional information on how the company's training policy affects them.

What is happening to the employment relationship

Gallie *et al* (1998), in their analysis of the outcome of their Employment in Britain research programme, noted that while there have been shifts in the ways in people are employed, 'the evidence for a major change in the nature of the employment relationship was much less convincing'. But they did note a number of developments, as listed below.

SOURCE REVIEW

Developments in the employment relationship, Gallie *et al* (1998)

- New forms of management, often based explicitly or implicitly on HRM principles and emphasizing individual contracts rather than collective bargaining.
- There was some increase in task discretion but there was no evidence of a significant decline in managerial control; indeed, in some important respects control was intensified.
- Supervisory activity was still important.
- Integrative forms of management policy were centred on non-manual employees.

- The great majority of employees continued to attach a high level of importance to the intrinsically motivating aspects of work.
- The higher the level of skill, the more people were involved with their work.
- The raising of skill levels and the granting of increased discretion to employers are key factors in improving the quality of work experience.
- High levels of commitment to the organization can reduce absenteeism and labour turnover but there was no evidence that organizational commitment ‘added anything over and above other organizational and task characteristics with regard to the quality of work performance’.

Managing the employment relationship

The dynamic and often nebulous nature of the employment relationship increases the difficulty of managing it. The problem is compounded because of the multiplicity of the factors that influence the contract – the culture of the organization, the prevailing management style, the values, espoused and practised, of top management, the existence or non-existence of a climate of trust, day-to-day interactions between employees and line managers, and the HR policies and practices of the business.

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

- during recruitment interviews – presenting the unfavourable as well as the favourable aspects of a job in a ‘realistic job preview’;
- in induction programmes – communicating to new starters the organization’s HR policies and procedures and its core values, indicating to them the standards of performance expected in such areas as quality and customer service, and spelling out requirements for flexibility;
- by issuing and updating employee handbooks that reinforce the messages delivered in induction programmes;

- by encouraging the development of performance management processes that ensure that performance expectations are agreed and reviewed regularly;
- by encouraging the use of personal development plans that spell out how continuous improvement of performance can be achieved, mainly by self-managed learning;
- by using learning and development programmes to underpin core values and define performance expectations;
- by ensuring through manager and team leader training that managers and team leaders understand their role in managing the employment relationship through such processes as performance management and team leadership;
- by encouraging the maximum amount of contact between managers and team leaders and their team members to achieve mutual understanding of expectations and to provide a means of two-way communications;
- by adopting a general policy of transparency – ensuring that on all matters that affect them, employees know what is happening, why it is happening and the impact it will make on their employment, development and prospects;
- by developing HR procedures covering grievance handling, discipline, equal opportunities, promotion and redundancy and ensuring that they are implemented fairly and consistently;
- by developing and communicating HR policies covering the major areas of employment, development, reward and employee relations;
- by ensuring that the reward system is developed and managed to achieve equity, fairness, consistency and transparency in all aspects of pay and benefits;
- generally, by advising on employee relations procedures, processes and issues that further good collective relationships.

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

Developing a high trust organization

A high trust organization is one in which high levels of trust exist between employees and management. A climate of trust is an essential ingredient in a positive employment

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

It has been suggested by Herriot *et al* (1998) that trust should be regarded as social capital – the fund of goodwill in any social group that enables people within it to collaborate with one another. Thompson (1998) sees trust as a ‘unique human resource capability that helps the organization fulfil its competitive advantage’ – a core competency that leads to high business performance. Thus there is a business need to develop a high trust organization, as described below.

SOURCE REVIEW

A high trust organization, Fox (1973)

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

This ideal state may seldom, if ever, be attained, but it does represent a picture of an effective organization in which, as Thompson (1998) noted, trust ‘is an outcome of good management’. He also commented that a number of writers have generally concluded that trust is ‘not something that can, or should, be directly managed’. He cites Sako (1994) who wrote that: ‘Trust is a cultural norm which can rarely be created intentionally because attempts to create trust in a calculative manner would destroy the effective basis of trust.’

In the end trust is not to do with managing people or processes, but is more about relationships and mutual support. Trust is created and maintained by managerial behaviour and by the development of better mutual understanding of expectations – employers of employees, and employees of employers.

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

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

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

When do employees trust management?

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

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

Distributive, procedural and natural justice

To treat people justly is to deal with them fairly and equitably. Leventhal (1980), following Adams (1965), distinguished between distributive and procedural justice, and the principle of natural justice has been enshrined in employment law, especially the law dealing with dismissal.

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

Procedural justice refers to the ways in which managerial decisions are made and personnel procedures are managed. The five factors that affect perceptions of procedural justice as identified by Tyler and Bies (1990) are:

1. Adequate consideration of an employee’s viewpoint.
2. Suppression of personal bias towards an employee.
3. Applying criteria consistently across employees.
4. Providing early feedback to employees about the outcome of decisions.
5. Providing employees with an adequate explanation of decisions made.

Natural justice refers to how people are treated in disciplinary and dismissal cases. The three principles are:

1. Individuals should know the standards of performance they are expected to meet and the rules to which they are expected to conform.
2. They should be given a clear indication of where they are failing or what rules they have broken.
3. Except in cases of gross misconduct, they should be given an opportunity to improve before disciplinary action is taken.

Renewing trust

As suggested by Herriot *et al* (1988), if trust is lost, a four-step programme is required for its renewal:

1. Admission by top management that it has paid insufficient attention in the past to employees' diverse needs.
2. A limited process of contracting whereby a particular transition to a different way of working for a group of employees is done in a form that takes individual needs into account.
3. Establishing 'knowledge-based' trust, which is based not on a specific transactional deal but on a developing perception of trustworthiness.
4. Achieving trust based on identification in which each party empathizes with each other's needs and therefore takes them on board themselves (although this final state is seldom reached in practice).

Theories explaining the employment relationship

The meaning of the employment relationship has been explained in a number of theories, summarized below.

Labour process theory

Labour process theory was originally formulated by Karl Marx (translated in 1976). His thesis was that surplus is appropriated from labour by paying it less than the value it adds to the labour process. Capitalists therefore design the labour process to secure the extraction of surplus value. The human capacity to produce is subordinated to the exploitative demands of the capitalist, which is an alien power confronting the worker who becomes a 'crippled monstrosity by furthering his skill as if in a forcing house through the suppression of a whole world of productive drives and inclinations'.

Considerably later, a version of labour process theory was set out by Braverman (1974). His view was that the application of modern management techniques, in combination with mechanization and automation, secures the real subordination of labour and de-skilling of work in the office as well as the shop floor. He stated that the removal of all forms of control from the worker is 'the ideal towards which management tends, and in pursuit of which it uses every productive innovation shaped by science'. He saw this as essentially the application of 'Taylorism' (ie F W Taylor's concept of scientific management, meaning the use of systematic observation and measurement, task specialism and, in effect, the reduction of workers to the level of efficiently functioning machines).

Braverman's notion of labour process theory has been criticized as being simplistic by subsequent commentators such as Littler and Salaman (1982) who argue that there are numerous determinants in the control of the labour process. And Friedman (1977) believes that Braverman's version neglects the diverse and sophisticated character of management control as it responds not only to technological advances but also to changes in the degree and intensity of worker resistance and new product and labour market conditions. Storey (1985) has commented that 'the labour process bandwagon... is now holed and patched beyond repair'.

But labour process theory continues to thrive in different forms. It was claimed by Edwards (1990) that relationships between capital and labour are ones of 'structured antagonism'. Newton and Findlay (1996) believed that labour process theory explains how management has at its disposal a range of mechanisms through which control is exercised: 'Job performance and its assessment are at the heart of the labour process.' Management, according to Newton and Findlay is constantly seeking ways to improve the effectiveness of control mechanisms to achieve compliance. Managers 'try to squeeze the last drop of surplus value' out of their labour.

Thompson and Harley (2007) noted that: 'The notion of the workplace as contested terrain is a central motif of labour process theory.' They pointed out that what is happening is a process of 'capitalizing on humanity' rather than investing in human capital. However, they did comment that; 'In the employment relationship there will always be (actual and potential) conflict, but simultaneously there will be shared interests.' And they suggested that: 'In an environment where employee skills and commitment are central to organizational success, it is precisely by giving more that organizations will gain more.'

Agency theory

Agency or principal agent theory indicates that principals (owners and managers) have to develop ways of monitoring and controlling the activities of their agents (staff). Agency theory suggests that principals may have problems in ensuring that agents do what they are told. It is necessary to clear up ambiguities by setting objectives and monitoring performance to ensure that objectives are achieved.

Agency theory has been criticized by Gomez-Mejia and Balkin (1992) as ‘managerialist’. As Armstrong (1996) wrote: ‘It looks at the employment relationships purely from management’s point of view and regards employees as objects to be motivated by the carrot and stick. It is a dismal theory, which suggests that people cannot be trusted.’

Exchange theory

Exchange theory sets out to explain organizational behaviour in terms of the rewards and costs incurred in the interaction between employers and employees. There are four concepts:

1. Rewards – payoffs that satisfy needs emerging from the interactions between individuals and their organizations.
2. Costs – fatigue, stress, anxiety, punishments and the value of rewards that people have lost because of lack of opportunity.
3. Outcomes – rewards minus costs: if positive the interaction yields a ‘profit’ and this is satisfactory as long as it exceeds the minimum level of expectation.
4. Level of comparisons – people evaluate the outcome of an interaction against the profit they are foregoing elsewhere.

Unitary and pluralist frames of reference

One of the often expressed aims of human resource management is to increase the commitment of people to the organization by getting them to share its views and values and integrate their own work objectives with those of the organization. This concept adopts a unitary frame of reference; in other words, as expressed by Gennard and Judge (2005), organizations are assumed to be ‘harmonious and integrated, all employees sharing the organizational goals and working as members of one team’. Alternatively, the pluralist perspective as expressed by Cyert and March (1963) sees organizations as coalitions of interest groups and recognizes the legitimacy of different interests and values. Organizational development programmes which, amongst other things, aim to increase commitment and teamwork, adopt a unitary framework. But it can be argued that this is a managerialist assumption and that the legitimate interests of the other members of a pluralist society – the stakeholders – will have their own interests that should be respected.

The employment relationship – key learning points

Basis of the employment relationship

An undertaking by an employee to provide skill and effort to the employer in return for which the employer provides the employee with a salary or a wage. The employer's obligations also include the duty to provide a safe workplace, to act in good faith towards the employee and not to act in such a way as to undermine the trust and confidence of the employment relationship. The employee has corresponding obligations, which include obedience, competence, honesty and loyalty.

Employment relationship contracts

The three types of employment relationship contracts are transactional, relational and psychological.

Three of the more important developments in the employment relationship (Gallie *et al*, 1998) are:

1. New forms of management, often based explicitly or implicitly on HRM principles and emphasizing individual contracts rather than collective bargaining.
2. There was some increase in task discretion but there was no evidence of a

significant decline in managerial control; indeed, in some important respects control was intensified.

3. The higher the level of skill, the more people were involved with their work.

Managing the employment relationship

The dynamic and often nebulous nature of the employment relationship and the multiplicity of the factors that influence the contract increase the difficulty of managing it.

Developing a high trust organization

A high trust organization exists when management is honest with people, keeps its word (delivers the deal) and practices what it preaches. Trust is created and maintained by managerial behaviour and by the development of better mutual understanding of expectations – employers of employees, and employees of employers.

Theories explaining the employment relationship

The theories explaining the employment relationship are labour process theory, agency theory and exchange theory.

Questions

1. What is the basis and the main features of the employment relationship?
2. It was claimed by Edwards (1990) that relationships between capital and labour are ones of 'structured antagonism'. What does this mean and to what extent is it true?

Questions (continued)

3. What is labour process theory and how relevant is it in explaining the employment relationship?
4. After a meeting of the works council the chief executive turned to you and said, 'I'm worried, they don't seem to trust us. What can we do about it?' Write an e-mail to her to explain what needs to be done.

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