

HRs' reaction to an outsourcing decision. the effects of the planning stage on the psychological contract.

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Abstract. Outsourcing is a managerial practice structured in many phases (planning, developing, implementing and evaluation), each of which has a profound impact on HRs behavior and on the dynamics of the relationship between an employer and an employee, namely the psychological contract. This paper aims at understanding some of these influences and specifically the reactions of the workers when a functional assessment – prior to the outsourcing choice – is performed. In details, we are interested in understanding – from the worker's perspective - the effects of the assessment phase on the psychological contract. The study, still in progress, analyzes the announcement impact on three variables: motivation, commitment and trust with the aim to identify those antecedents factors that may threaten the relationship person-organization.

Keywords. Outsourcing, Psychological Contract, motivation, commitment, trust

Introduction. The paper is structured in three sections. Section n.1 deals with the outsourcing process and describes the phenomenon and its four stages. This first section is important in order to better understand the dynamics of the outsourcing process, and also allows to focus on some issues that will be incorporated in the psychological contract. The second section introduces the psychological contract and its main features. A personal definition is presented, then the focus is shifted on the understanding of the changes occurring on the worker's behavior when the planning stage – that is the preliminary phase – of the outsourcing process is performed. The third section contains the empirical evidences and copes with the psychological contract breach. In order to test the hypothesis formulated it has been carried out a survey through which some useful information to analyze the reactions of the workers had been collected. The survey sample is composed of 20 middle managers belonging to different companies and sectors. They were asked to fill out a structured questionnaire delivered by mail and returned in an electronic way. Data had been collected and processed by the use of MonkeySurvey.

1. The Outsourcing Process

Outsourcing is an important strategic tool in today's competitive business environment and it can be described under different points of view, ranging from tactical, to strategical, to operational [2], [5], [6]. Regardless of the perspectives, first of all outsourcing has to be considered as a process articulated in many steps: planning, developing, implementing and evaluation. In this sense we can affirm that the implementation of an outsourcing strategy is developed, in two generic phases: an evaluation (planning) and a management phase (developing, implementing and evaluation) .

The evaluation or planning phase is the starting point and is crucial in order to define which part or the company can be subject of a possible outsourcing decision. The evaluation is generally carried out through the definition of the strategic importance of the process/function/activity in terms both of efficiency and contribution to the formation of the distinctive capabilities. If the strategic importance is moderate and the quality levels of the services are much more guaranteed by external providers, the company can proceed with the boundaries' redefinition and the selection of the supplier/s or partner/s. As the compatibility is an essential aspect for the relationship success, it is

important to make a proper evaluation in order to find the appropriate partner/s under different aspects, such as: culture, size, and institutional structure. After having chosen the partner/s, in the management phase negotiations will start for the conclusion of the contract where some arrangements will also be defined to control the quality of the service received through a careful and methodic benchmarking activity.

In this paper the attention is focused on the evaluation or planning stage. During this preliminary phase the company proceeds with the identification of the process/function/activity that will bring a competitive advantage to the organization if externalized and in the development of the business case and evaluation of the market in order to find the correct partner.

This phase has a deep impact on Human Resources in terms of motivation, commitment and trust. Workers' attitude and behavior are obviously subject to profound stimuli when a company announces the functional assessment preliminary to the consideration of an outsourcing decision. Inevitably, this solicitation will have some impacts and consequences on the psychological contract that is the set of promises or expectations informally exchanged between the organization and the worker in an employment relationship. Unlike formal contracts of employment, they are tacit or implicit and they tend to be invisible, assumed, unspoken, informal or at best only partially vocalised. In the next paragraph a brief but exhaustive definition of the main features of the psychological contract will be provided while in the third section the effects of the planning phase on it in terms of motivation, commitment and trust will be investigated.

2. The psychological Contract.

One of the most important features of our own time is the change in organizational models and work performances. Outsourcing represents an opportunity to adapt the organization boundaries in a changing environment. The forces that configure new reference frameworks for business decisions are driven by the globalization of markets and the availability of technological innovations, in computing and communications. The business world is increasingly characterized by new challenges of productivity, adaptability, flexibility and mobility, that become the new prerogatives for the competition of both for enterprise and workers in the global market. Today companies require a constantly evolving, level of knowledge, from quantitatively and qualitatively point of view, higher than in the past, characterized by the continuous need of renewal [15], [16].

Among the many consequences of these modifications, one of the most important is the redefinition of the informal relationship between employee and company. This relationship, namely psychological contract, has a powerful impact on employee faced with the necessity to be even more versatile in order to ensure rapid adaptation to pressing working conditions [9].

Denise Rousseau, one of the leading representatives of psychological contract theory, defines the psychological contract as "*the set of individual beliefs about mutual obligations between the worker and the organization, and it arises when the person gives promises that generate these beliefs*" [12].

In this definition, two main aspects need to be underlined:

- the relational aspect: the existence of a socio-emotional base that underlies expectations of shared ideals and values, and respect and support in the interpersonal relationships. Secondly, the reciprocal obligations.;
- reciprocity: the relationship between the employee and the organization can be considered of reciprocal exchange and explained in three different types of connection [17]:
- an economic exchange, if, for example, refers to the work carried out in return for remuneration;
- a relationship of belongingness, where individuals are active parts and members of the organization;
- a psychological nature-based exchange which arises from the mutual expectations between employee and employer, and that finds an explanation in that concept called psychological contract.

These ideas are fundamental for the constitution and consolidation of the psychological contract; the company carries out certain actions in favour of the employee, and in turn the employee - as long as the values and loyalty persist - maintain trust and commitment towards the organization.

After these explanations, it is necessary to survey from where the beliefs in reciprocal obligations derives [11]. In particular they arise from:

- explicit promises made by people who have decision-making roles within the organization (for example, the promise of some additional benefits to the normal system of payment that have been spoken during recruitment);
- interpretations made on the basis of past work experience;
- learning by observation and imitation (eg, through the experience of colleagues working in the same organization).

Generally, the more a person relies on explicitly promises made (i.e. by superiors) or on direct experiences that are gradually confirmed, the more likely that his beliefs about the nature of the exchange contract to be strong and sustained over time. The consistency and stability of the promises and demands are the basis for the development of the worker's perceptions of clear and consistent obligations and duties towards the organization.

From our point of view, these principles associated with the relational aspects and reciprocity can be summarized into our definition of psychological contract that is the *“implicit contract between individual and organization, based on a set of mutual expectations such as: commitment, collaboration and motivation, that the enterprise expects, and at the same time, a set of expectations that the employee expects from the company, such as remuneration, professional development and the security of the workplace.”*

This definition arises from different enunciations given by authors, such as [1], [3], [4] and [11] will be used in the next paragraph in order to better understand what happens on the worker's side when the planning is made. Are we facing a breach of the psychological contract?.

3. The Impact of the Planning Stage on the Psychological Contract: the Worker's Perspective

The aim of the paragraph is to understand the impact on the psychological contract – from the worker's side - when a process of outsourcing is performed, and in particular when the planning stage is launched.

In other words the main question is: “What happens in the relationship between employee and company when the functional assessment is accomplished? It is perceived by the worker as a breach or violation of the psychological contract perpetrated from the company side?”. Consequently: “Which is the impact on worker's motivation, commitment and trust?”.

H1: the functional assessment has a negative impact on the psychological contract (motivation, trust and commitment decrease)

H2: the functional assessment has a positive impact on motivation, trust and commitment as it stimulates the workers to improve their performances in order to avoid the outsourcing hypothesis.

In order to introduce the empirical evidences, we can affirm that the perception of a breach of contract may depend on the contextual analysis made by the counterparts in a certain time and in response to certain events considered inconsistent with the agreement made. The breach of contract includes a variety of situations ranging from the most imperceptible and misunderstanding to the total loss of confidence. The violations that may perform different Contract Makers are primarily linked to promises and commitments that can do and they want to fulfill [17]. The reactions to the violation can take various forms. The contract breach causes loss of trust, tensions and frictions

[10], and change the way people interact in subsequent meetings. The result of breach of contract may be reflected in the decline of company loyalty and increasing conflicts.

In order to give answer to the research question, a questionnaire had been addressed to middle managers belonging to different companies and sectors. The choice of the questionnaire is motivated by the need to have a real structured feedback on the survey. Another aspect is the simplicity of the participants in filling the survey. In this regard, in order to have a more efficient collection of the answers it was decided to turn the questionnaire into an electronic format and send it by email to the selected sample, in this case, the middle management.

Almost all of workers of the analyzed sample (84.2%) has a permanent contract and belongs to the organization for at least 5 years. These data are essential to give greater consistency to the hypothesis that we are going to test.

3.1. Motivation

Motivation represents one of the most important factors influencing productivity and performance within the organization: in fact only if the people have a strong motivation in their work, the whole company can grab a good performance. When organizations decides to make an outsourcing process the major risk is to lose people who have contributed to the business success [11]. Another problem is the decrease in motivation and therefore also in commitment, which is registered in the personnel. Employees are concerned about a possible change of duties; or about the risk of project cancellation on which they worked. These assumptions are confirmed in the analysis made: the question "what would be your reactions if the company announce the possibility of making use of outsourcing, giving to an external supplier the activity that you are currently performing?" It is one of the key questions and under the aspect of motivation it clearly emerges that the workers' perceptions on the outsourcing process is negatively correlated with motivation: in fact the average of responses stood at 2,84 on 7 of maximum. The survey on the other hand reveals that interviewed are involved and motivated in decision (making 62% of respondents).

If organization make an outsourcing process without giving an appropriate notice, the loss of motivation increases at 5,5 average on 7 maximum, this reaction is justified by 60% of interviewed that perceive this behavior as misconduct.

Today one of the company's challenges to identifying the most effective ways to manage the psychological contract with their own human resources in order to maintain an high level of commitment and motivation.

3.2 Commitment

If we interpret the data collected, we can assert that the announcement is negatively related to the employee affective commitment, and positively related to employees' intent to quit. As a matter of fact, we can see that the majority of responses concerning the commitment questions are below the "median line" with a 3,25 average on 7 maximum, and more than 52% have the intent to quit. So generally when the company conducts a process of redefining organizational, through outsourcing, employees have the tendency to lose part of their commitment. Moreover, commitment and motivation result are strictly linked. We can observe parallel results for motivation and commitment: this is not surprising if you think that in case in of low motivation, difficulty in devotion is generally high [11], [12], [13]. Commitment is strictly linked with performance, and the research has shown that perceived psychological contract breach reduces employees' commitment to the organization; consequently the productivity and enhance the intent to leave the organization for the 55% of the respondents.

3.3. Trust

Trust becomes is key in promoting, developing and maintaining belief agreement in the long run. As the psychological contract is supposed to be longlasting and middle managers are the most

complex figures in business as they stipulate contracts for the organization and for themselves, functioning as the main agents and representatives, trust is central to be consolidated during the working life of the individual.

Analyzing the data we collected, in case of outsourcing it is interesting to note that there isn't a clear preference in the answers: 37% of respondents affirmed that they would completely lose confidence in the organization while 20% not, and another 20% is neutral to the affirmation.

This can be interpreted by the high involvement, and motivation mentioned above that determines an attachment to the organization that goes further the negative situation (from the worker's perspective) represented by outsourcing.

In case of outsourcing, the prevalent part of the sample 45% answered that they would activate in order to find another job. It should be specified that the breach does not always lead to abandonment. Robinson and Rousseau (1994) found that among those who have suffered a breach of contract, 48% of employees leaves the employment relationship, while the remaining 52% of cases keeps their jobs by developing three different forms of reaction: discussion, loyalty / silence, neglect / destruction.

Finally, we have to underline, that more than 40% of the sample won't be willing to work for the outsourcer, that is for the company providing the services. This data can be interpreted as confirmation of the strong tie existing between the company and the worker.

So the strong relationship found between violations and trust is particularly significant given that trust is crucial to organizational effectiveness. Trust has a 'spiral reinforcement' quality such that a decline in trust often leads to further decline.

Conclusion

This paper was intended to explain the reactions Human Resources can have when a process of redefinition of the organizational boundaries, that is outsourcing, is put into operation.

The analysis focused on motivation, commitment and trust showed that in case of outsourcing, these variables suffer of a negative effect (H1 validated). Probably, these reactions arise from a strong involvement within the organization. A great involvement has a positive impact on the relationship, but when there is a breach of the contract, there are consequences that can lead to the total loss of trust, motivation and commitment. So it is important that the relationship between employee and organization is based on a fair exchange. The alignment of interests among all the people that belong to the organization is a fundamental condition for the achievement of corporate goals. In other words psychological contract today has a more relevance than in the past, because of the changing environment.

Research limitations/implications. In this initial attempt, the paper takes into account the employees reactions to an outsourcing decision, through an exploratory survey among 20 middle managers from different companies and industries.

The theme is interesting and it would deserve further investigation on different positions, companies and industries as well. The overall view may be quite rich and composite: the negative effects of IT outsourcing in a hospital [14] may be different from the mixed effects of outsourcing of cataloging in academic libraries [7] or from the hostile reactions after IT outsourcing in IT companies [8]. Surely, results cannot be generalized as they are context-sensitive, but an enlargement and enrichment of the sample should help to better understand the phenomenon.

Moreover, another limitation is related to the fact that some subjectivity is involved in interpreting the results, as is the case for any study that adopts a real-life approach.

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