Evaluating corporate purposes by the psychological contracts they produce

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- The topic of psychological contracts has been shielded from moral scrutiny by the belief that they are an inevitable response to a firm’s environment. By showing that they are heavily influenced by something chosen — the corporate purpose — they and the corporate purposes that shape them become amenable to moral examination.

- Three moral tests were derived from Roycean philosophy and showed that a core purpose of delivering value to customers may create the highest levels of moral value. In contrast, a purpose of balancing the needs of all stakeholders risks complacency while one of maximizing shareholder value appears not to engender loyalty or commitment, may result in undue distress and potentially degrade the trustworthiness and integrity of senior managers. These latter findings are serious enough to warrant local studies of shareholder-value firms.

- The wider implications for management training, people in business and researchers are discussed.

Introduction

The term ‘psychological contract’ appears to be increasingly common in research literature despite concerns about its exact meaning (Roehling, 1997; Marks, 2001). Broadly, psychological contracts are ‘beliefs, based on promises expressed or implied, regarding an exchange agreement between an individual and in organizations, the employing firm and its agents’ (Rousseau, 2004: 102). They tend to fall into two types — relational and transactional. The former ‘include such terms as loyalty (worker and employer commit to meeting the needs of the other) and stability (an open-ended commitment to the future)’ (p. 122), while the latter ‘include such terms as narrow duties and a limited or short-term duration’ (p. 122). The literature tends to describe rather than judge psychological contracts and the purpose of this paper is to render the topic available to moral examination.

A key theme in the psychological contract literature is that they are strongly influenced...
by business strategy, which in turn is strongly influenced by the firm’s environment (Miles and Snow, 1984; Rousseau, 1995; Rousseau and Wade-Benzoni, 1994; McGreevey, 2003). There is therefore an implied inevitability about the type of psychological contract a firm adopts and thus no basis on which to judge psychological contracts from a moral perspective. To challenge this prevailing view it is first argued that psychological contracts are in fact significantly influenced by a firm’s corporate purpose. Furthermore, by virtue of the fact that corporate purposes are chosen phenomena, both corporate purposes and the psychological contracts they produce are available for moral scrutiny. Secondly, moral tests are applied derived from the work of Royce to assess the moral worth of the psychological contracts produced by different types of corporate purpose.

Corporate purpose as the root of the psychological contract

The fact that business strategy appears to shape the type of psychological contract that a firm adopts simply begs the question ‘so what shapes business strategy?’ In fact, it is corporate purpose — a firm’s fundamental reason for existing — that drives strategy (Springett, 2004a). Ellsworth (2002: 4) has expressed it in the following way:

*Corporate purpose sits at the confluence of strategy and values. It expresses the company’s fundamental value — the raison d’être or overriding reason for existing. It is the end to which strategy is directed.*

In line with this view, Basu’s (1999) doctoral work found that strategy was indeed driven by corporate purpose and concluded that corporate purpose was more enduring and important than strategy. Since corporate purpose is the most fundamental decision about a company it might be expected to condition employee expectations and experiences of being employed there, including the psychological contract. It is crucial to note that corporate purpose is a decision by persons and is therefore, following Kant’s moral philosophy (see Gregor, 1998), subject to moral scrutiny. A relevant perspective for this examination can be found in the work of the philosopher Josiah Royce.

Roycean moral philosophy

Royce’s seminal book — *The Philosophy of Loyalty* (1908) — is the principal study of loyalty in the canon of Western philosophy. In it he argues that the most difficult problem for people is creating a sense of meaning and purpose in life — being able to answer questions such as ‘For what do I live? Why am I here? For what am I good? Why am I needed?’ (p. 28). These questions can be intractable because a person finds a ‘chaos of conflicting passions and interests’ (p. 15) when they introspect. Therefore they must look outside at the models and plans of life suggested by others only to find that ‘conformity attracts, but also wearies us’ (p. 17) and ‘makes us aware of our personal contrast with other people and so makes us self-conscious, individualistic, critical, rebellious and again we are thrown back on ourselves for guidance’ (p. 18). Royce describes this dissatisfying process as a paradox in which ‘the conflicts of social will and self-will are inevitable, circular, endless, so long as this is the whole story of the man’s life’ (p. 20).

The only route out of this circular process is to find a social cause or purpose to which one can wholeheartedly commit such that ‘conformity is no longer opposed to having one’s own will’ (p. 21). It is this commitment to a purpose greater than one’s self that Royce calls loyalty — his preliminary definition being ‘the willing and practical and thoroughgoing devotion of a person to a cause’ (Royce’s emphasis, p. 9). He is careful to stress that this loyalty is neither ‘a spirit of subservience, of slavish submission’ (p. 30) nor the ‘mere bondage to tradition, or . . . mere surrender of individual rights and preferences’ (p. 104).
Since loyalty to a social purpose helps to resolve the most fundamental dilemmas of the human condition it is a 'central principle of the moral life' (p. 8) and 'chief amongst all moral goods' (p. 28). Royce goes on to show that loyalty is in fact 'the fulfilment of the whole moral law. You can truthfully centre your entire moral world about a conception of loyalty. Justice, charity, industry, wisdom, spirituality, are all definable in terms of enlightened loyalty' (p. 9). Because loyalty is such a principal moral good, corporate purposes that result in a strong sense of mutual loyalty and stability can have a high moral value. Therefore, the first test of a corporate purpose is expressed as follows.

Moral test 1: Does the corporate purpose engender mutual loyalty and stability?

Following Royce’s moral philosophy, it is possible to explore the moral value of a corporate purpose by its effects on employees:

- perceived commitment from the organization to them,
- commitment to the organization,
- loyalty to the organization,
- sense of job security,
- desire to stay with the organization.

We would judge a corporate purpose that results in high levels of mutual loyalty and stability (i.e. a relational psychological contract) as having the potential to be of higher moral value than purposes with low levels of these factors (i.e. a transactional psychological contract). However, Royce warns us that even though a purpose might instil loyalty it might be ineffective because it is inadequately focused and does not result in people making real practical efforts to serve it. Hence the second test is as follows.

Moral test 2: Is the corporate purpose sufficiently focused to be demanding?

Royce (1908) writes that a person can only be effective by 'limiting his undertakings to some decidedly definite personal range’ (p. 61). The cause must ‘awaken my muscular vigour; stir me with some eagerness for work, even if this be painful work’ (p. 61) because ‘loyalty is perfected through great strains, labours and sacrifices in the service of the cause’ (p. 125). Royce alludes to a danger of complacency, of relaxing in the service of a cause that seems worthy but is not practically focused. The example he gives is of a philanthropist who ‘tries simply to help mankind as a whole, but loses his labour, so long as he does not undertake to help those nearest him’ (p. 61). Given that a sufficiently focused purpose should create a sense of demand, and that stress and demand can be taken as being synonymous (Ivancevich and Matteson, 1980), we can evaluate the moral value of a corporate purpose by its effects on:

- stress as a result of work,
- control over workload, and
- levels of motivation.

We might reason that comparatively low levels of demand and motivation could indicate the complacency of which Royce warns. Now, simply because a purpose encourages loyalty and practical effort it does not necessarily mean that it is ultimately good from a moral perspective. To take an extreme case, a terrorist might be extremely loyal to a malevolent cause and make great efforts toward that end. So how can a good purpose be distinguished from an evil one? Royce argues that ‘a cause is good, not only for me, but for mankind, in so far as it is essentially a loyalty to loyalty, that is, is an aid and a furtherance of loyalty in my fellows. It is an evil cause in so far as, despite the loyalty that it arouses in me, it is destructive of loyalty in the world of my fellows’ (p. 56). He terms an evil cause ‘a predatory cause, which lives by overthrowing the loyalties of others’ (p. 56). Of causes, the terrorist’s is arguably the most destructive and predatory of others’ loyalties. When it comes to business, Royce (1908) identified honesty and integrity as having the most impact on others’ loyalties. Thus he writes that: ‘In the commercial world,
honesty in business is a service, not merely and not mainly to the others who are party to the single transaction in which at any one time this faithfulness is shown. The single act of fidelity is an act of loyalty to that general confidence of man in man upon which the whole of business rests’ (p. 66). Hence the third moral test is as follows.

**Moral test 3: Does the corporate purpose encourage honesty and integrity?**

The propensity for shareholder value maximization to lead to corporate dishonesty in managers is well documented (Blair, 2002; Bratton, 2002; Mintzberg et al., 2002; Tourigny et al., 2003; Higgins and Currie, 2004), while Small (2002) has argued that such dishonesty results in a loss of trust inside the firm. Therefore, if a purpose of maximizing shareholder value does indeed degrade managers’ honesty and integrity we might expect that effect to register in low levels of:

- trust in senior managers,
- trust in immediate leaders,
- perceived integrity of managers.

Following Royce’s philosophy, we might regard a corporate purpose that engenders low levels of perceived trustworthiness and integrity of its managers as potentially having less moral worth than other purposes. In a related paper, Springett (2004b) reported some significant findings in these variables and they are reiterated in the results section.

**The categorization of firms by corporate purpose**

There are three main issues in categorizing firms by their corporate purpose. First, a company’s stated purpose is often at odds with the purpose it actually lives by. Therefore categorizing them by stated purpose alone will mask actual differences. However, if we categorize firms by the purpose that employees report they live by we can introduce another form of error. For instance, employees who are disaffected with the company might report that it operates from a relatively cynical, solely profit-seeking corporate purpose. To overcome this issue we compared only those firms where the stated purpose was reported to be identical with the lived purpose.

A company’s stated purpose is often at odds with the purpose it actually lives by

The second issue is that some firms’ stated or lived purposes are multiple in form. For instance, a company could state that their fundamental purpose is to ‘make profits and deliver customer value’. All the permutations of multiple purposes would make statistical comparisons unmanageable. Therefore we limited our comparisons to firms reporting a singular corporate purpose.

The third issue is that some purposes are not relevant to companies in all sectors. In particular, public and voluntary sector organizations are not able to adopt a corporate purpose of maximizing shareholder value. To ensure that we compared like with like we therefore limited our analyses to for-profit firms only.

In summary, the response to the above issues was to compare for-profit firms whose stated and lived purpose was singular and one of delivering value to customers, or maximizing shareholder value, or balancing the needs of all their stakeholders. The overall effect of which was to compare the pure forms of each of the three types of corporate purpose.

To identify the firms to be compared we included items about stated and lived corporate purpose in the 1994 Roffey Park Management Agenda (McCartney and Holbeche, 2005). This is an annual survey designed to explore a wide range of organizational issues. It includes 199 items grouped into sections on Organizational change, Organizational life,
Organizational culture, The employee deal, Working across boundaries and Organizational trends.

Some 735 individuals responded to the questionnaire. From their responses it was possible to identify 72 people employed in firms whose corporate purpose was to maximize shareholder value, 40 people employed in companies whose corporate purpose was to balance the needs of all their stakeholders, and 116 who were employees of firms whose corporate purpose was to deliver value to customers.

Principal research findings

Moral test 1: Does the corporate purpose engender mutual loyalty and stability?

We proposed that corporate purpose should significantly influence the psychological contract experienced by employees. In particular, we were interested in comparing the perceptions of mutual commitment, loyalty and desire to stay with the organization in employees of firms with different types of corporate purpose.

Perceived commitment from the organization

When asked how committed their organization was to them, 40% of employees in companies aiming to deliver customer value responded ‘very’. The comparison figures were 33% of employees in firms aiming to balance the needs of all stakeholders and 0% of employees of shareholder-value firms. This pattern of data was significant at the level of $p < 0.02$.

Commitment to the organization

The data around commitment felt towards the organization also showed significant differences. 63% of employees in firms focused on delivering value to customers reported very high levels of commitment to their firms. The equivalent figures were 33% for employees of companies attempting to balance the needs of all their stakeholders and 26% of employees in companies aiming to maximize shareholder value. These differences were significant at the level of $p < 0.03$.

Loyalty felt to the organization

The data around felt loyalty fell into the same pattern as the commitment data. When asked how external factors had changed their sense of loyalty to the firm, 34% of employees of customer-focused firms reported that their sense of loyalty had increased, compared with 16% for employees in firms balancing the needs of all stakeholders and 17% for employees of firms maximizing shareholder value. These results were significant at the level of $p < 0.005$. Similarly, to the same question only 14% of employees of customer-focused firms reported a decrease in their sense of loyalty compared to 26% for employees in companies balancing the needs of all stakeholders and 44% of employees of firms maximizing shareholder value. These results were significant at the level of $p < 0.001$.

Sense of job security

When asked about their level of job security, 83% of respondents from customer-focused companies reported that they felt secure. The equivalent figures were 77% for employees of firms aimed at balancing the needs of all their stakeholders and 48% of employees of shareholder-value firms. This pattern of differences was significant at the level of $p < 0.001$.

Desire to stay with the organization

A slightly different pattern of results was found when it came to employees’ desire to stay with their organizations. When asked whether they were considering a move in the near future, 28% of employees in customer-focused firms reported that they were considering such a move. This compared with 25% for employees of companies balancing the needs of all shareholders and a striking 62% of employees of
companies maximizing shareholder value. These data were significant at the level of \( p < 0.001 \).

**Summary**

Overall, the results suggest that employees of firms whose fundamental purpose is to deliver customer value experience the highest levels of mutual loyalty and stability, which is indicative of a high proportion of relational psychological contracts. They are closely followed by employees of firms whose core purpose is to balance the needs of all their stakeholders. People working for companies trying to maximize shareholder value appear to experience the least amount of mutual loyalty and stability, indicative of a high proportion of transactional psychological contracts.

**Moral test 2: Is the corporate purpose sufficiently focused to be demanding?**

Royce (1908) articulated a risk that people can feel loyal to purposes that, through a lack of focus, result in complacency and little practical effort being made. To investigate this possibility, we examined the effect of corporate purpose on levels of stress, control over workload, and motivation.

**Levels of stress**

Respondents were asked whether they experienced stress as a result of work. Some 40% of employees of firms trying to balance the needs of all stakeholders reported that they did not experience any stress as a result of work. This figure compared with 26% for employees of customer-focused firms and 16% for employees of companies aiming to maximize shareholder value. This pattern of results was significant at the level of \( p < 0.025 \).

**Control over workload**

When it came to perceived control over workload, only 7% of employees in firms balancing the needs of all stakeholders reported a lack of control. The equivalent figures were 24% for employees of customer-focused firms and 37% of employees in companies aiming to maximize shareholder value. These differences were significant at the level of \( p < 0.01 \).

**Levels of motivation**

To gauge motivation levels, respondents were asked how much they stretched themselves to ‘go the extra mile’ in their work. Some 82% of employees of customer-focused firms reported that they often went the extra mile in their work. This figure compared to 78% for employees of firms aiming to balance the needs of all stakeholders and 75% for employees of shareholder-value firms. However, these differences were not statistically significant. It may well be that the surprisingly high overall number of employees reporting that they often went the extra mile meant that the item was not sufficiently sensitive to register actual differences in tests of statistical significance.

**Summary**

Overall, the data suggest that people working for firms whose purpose is to balance the needs of all stakeholders find their work significantly less demanding than employees in firms of other types. The highest demand was felt by employees in shareholder-value companies. There was a trend for employees of firms who maximize delivery of customer value to feel the highest level of motivation and experience a comparatively moderate level of demand.

**Moral test 3: Does the corporate purpose encourage honesty and integrity?**

Following the literature, we proposed that a corporate purpose of maximizing shareholder value may engender lower levels of trust and perceived integrity of managers than other corporate purposes. Springett (2004b) reported some significant findings in these variables and these are reiterated below.
Trust in senior managers

As evidenced from the literature, least trust in senior managers was found in firms whose purpose was to maximize shareholder value. In such firms only 11% of employees reported that they trusted their senior managers to a great extent. The equivalent figures were 42% in customer-focused firms and 38% in companies aimed at balancing the needs of all stakeholders. This data was statistically significant at the level of $p < 0.03$.

Summary

The evidence reported here supports the literature in suggesting that a purpose of maximizing shareholder value might well undermine the perceived trustworthiness and integrity of managers. Most trust and perceived integrity was attributed to managers of companies that aimed to balance the needs of all their stakeholders.

Discussion and conclusions

The principal aim of the study was to render psychological contracts available to moral scrutiny in order to evaluate the corporate purposes that shape them. It was argued and empirically corroborated that the type of psychological contract a firm adopts is indeed heavily influenced by its corporate purpose and not simply an inevitable response to an uncontrollable environment. Since a corporate purpose is chosen by persons and impacts on the lives of others in the form of the psychological contract, senior managers and researchers have a duty to examine the nature of those impacts from a moral perspective.

The examination conducted here was informed by Roycean moral philosophy from which three tests were derived. The results are summarized in Table 1. Taken together, they suggest that a customer-focused corporate purpose may create most moral value by generating a high level of mutual loyalty and stability, a focus that creates a moderate level of demand for its employees and trustworthiness and integrity in managers. These findings support Ellsworth (2002), Watson (1991, 1992) and Springett (2004b), who contend that such a purpose represents the highest moral position in business life. The findings might contribute to explanations of why it is that such a purpose tends to lead to high financial performance (Ellsworth, 2002; Springett, 2004a). That a demanding work environment is to be considered morally good may sound
surprising when stress is now typically thought of as being synonymous with distress (Le Fèvre et al., 2003). From a Roycean perspective it can be a moral good only in the context of a worthwhile cause. This idea is embedded in Selye’s (1956) seminal work in which a challenge felt to be meaningful creates ‘good stress’. The concept is also echoed in Csikszentmihalyi’s (2002) work where he writes:

The best moments usually occur when a person’s body or mind is stretched to its limits in a voluntary effort to accomplish something difficult and worthwhile. (p. 3)

When it came to a corporate purpose of balancing the needs of all stakeholders, the results indicate that it might be viewed as less morally worthy precisely because this element of demand is less apparent. Despite engendering loyalty and stability, it may induce complacency because of a lack of focus — just as Royce warned. This lack of demand may help to explain why such firms financially under-perform against their competitors (Ellsworth, 2002; Springett, 2004a).

Arguably, the least moral value is to be found in a purpose of maximizing shareholder value. It appears to generate a lack of loyalty and commitment. In that context, the very high level of demand that it creates is likely to be experienced as distress rather than ‘good stress’ and would not be seen as a moral good from a Roycean perspective. Further, and in line with research implicating shareholder value maximization in the incidence of corporate scandals, the data support the view that such a purpose may degrade the trustworthiness and integrity of senior managers. These latter findings are sufficiently serious to warrant senior managers in shareholder-value firms critically examining whether or not their current corporate purpose is impacting negatively on managers and employees. Perhaps with some prescience for our post-Enron era, Royce (1908) writes that we ‘have only to turn to the recent history of corporate misdeeds and of the unwise mismanagement of corporations . . . to be reminded that what we want . . . is more loyalty and less of the individualism of those who seek power’ (p. 108).

This research has applied Royce’s (1908) principle of loyalty to loyalty (not predating on others’ loyalty to their causes) in a test of managers’ honesty and integrity. In fact, this principle has a wide relevance to business life. Contraventions would include aggressive headhunting, hostile takeovers, bullying, unfair discrimination, aiming to put a competitor out of business, senior managers abdicating their leadership function, insider trading and much more. As Royce claims, this single principle helps to focus complex moral issues and arguably, should be a key element in management education. Interestingly, Reichheld (1996: 26) invoked Royce’s philosophy in articulating a concept of ‘customer loyalty’ and superficially, one could argue that all firms are predatory in that they seek to destroy the loyalty of their competitors’ customers. However, Royce was very clear that loyalty is always to a cause beyond oneself. In repeatedly buying goods or services from a

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firm the customer is not being loyal in the strict Roycean sense, and therefore competing for customers does not contravene the principle of loyalty to loyalty.

A crucial overriding implication of this study is that the loyalty, effort and trustworthiness generated by a positive corporate sense of purpose can be seen as highly significant from a moral perspective, let alone a financial one. It should be valued and cultivated by business leaders and managers alike. Finally, and on a technical point, the study demonstrates that corporate purpose is an important independent variable for research into psychological contracts and by implication, investigations that do not account for this variable may be incomplete.

Biographical note

Nigel Springett is a chartered psychologist and an Associate of Roffey Park Management Institute where he teaches strategic leadership. Nigel’s practice focuses on strategy development and leadership in both the private and public sectors and his specialist research topics are corporate purpose and meaning at work.

References

