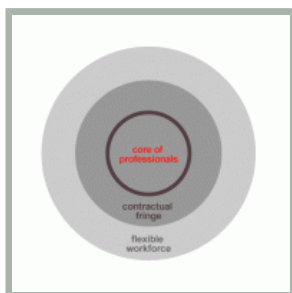


contractual organisation



characteristics

author:	Handy, Charles B.
country:	United Kingdom
period:	1976
type:	theory
role:	consultant and manager
activity:	analyse and reflect
topic:	org. design & development and personnel management
abstr. level:	environment
perspective:	sociopolitical
status:	final
module:	classics I
comments:	0

related models

gods of management

description:

In his work, "Understanding Organisations", the British management writer, Charles Handy, listed over sixty factors that influence the effectiveness of organisations. For Handy, work motivation is one of the key variables of organisational performance and he introduced the concept 'motivation calculus' to better understand this variable. His motivation formula contained three components:

1. the strength of the person's need;
2. the expectation that the effort/energy expended leads to a particular result;
3. the instrumentality, i.e. the means to obtain that result and satisfy the given need.

The value of each of the factors is subjective and determined by the individual involved. If one of the factors is null, the formula's outcome is null. The calculation to reach a decision occurs unconsciously for the most part, and is based on precedent.

Each decision is reached within the context of a psychological contract between the employee and the organisation. The contract encompasses the legal contract as well as the entire set of expectations. Organisations often choose a dominant type of psychological contract:

1. Coercive contracts

No choice exists other than undertaking the task. The method of control is law and order -- comply or be punished. Organisations that value conformity, value this type of contract.

2. Calculative contracts

The contract is entered on a voluntary basis. The main consideration is personal gain or reward. People with no economic need to work continue working. If the organisation requires more effort, the employee expects a higher compensation, of which wages are only a factor.

3. Co-operative contracts

The individual identifies with the organisation's goals and makes them his own. The worker prospers when the organisation prospers. Effort is based on the degree the individual has input in the company's goals.

A source of conflict arises when the organisation and the individual differ on the perception of the contract's content and causes a disconnect between the two parties. Managers tend to prefer a contract based on their world view and past experience.

Handy explored the boundaries of the three psychological contracts by describing the "Contractual Organisation". When the rate of change from global competition overwhelms the bureaucratic component's ability to centrally control the organisation, the bureaucracy fractures and yields to dynamic employee networks. Organisational focus is required because management time is finite. Outsourcing non-critical functions is essential for companies and managers to remain agile. Under these conditions, organisations are forced to split their work force into three types of workers, each providing a different contribution:

1. The core

full-time, hard-working, highly paid professionals, technicians and executives who 'own' the organisational knowledge;

2. A contractual fringe

individuals and organisations who provide material and service inputs to the organisational core;

3. A flexible workforce

part-time or temporary workers employed to handle peak workloads.

The three groups each require different treatment, that is, a different contractual arrangement based on different sets of expectations.

1. The core should be run as a professional firm using persuasion rather than direct command. Because the core makes or breaks the organisation, the leadership energies must be invested to foster a task culture (see Handy's 'Gods of Management').
2. The contractual fringe is motivated by fair pay and flexibility, and remuneration based results. Here, a bureaucratic role culture is required to coordinate the supplier and partner activities. The parties are often involved in a club culture.
3. The flexible workforce is even more fragmented and requires a role culture for coordination with a touch of Zeus to provide the appropriate spirit.

Handy's model is based on the individual's need and importance to the organisation. It provides insight into the most effective triggers.

assets:

 contractual organisations
ProvenModels • editor PM • version 0.1 • 42 KB

 motivation calculus
ProvenModels • editor PM • version 0.1 • 35 KB



the relationship between people, power & politics

ProvenModels • editor PM • version 0.1 • 60 KB

pros:

- Handy emphasised that organisations are social organisms consisting of networks of human relations that are affected by feelings, emotions, needs and wants. Understanding these dynamics provides the consultant and manager with an effective lever for change.
- A company does not need to satisfy the entirety of an individual's psychological contract. A person belongs to more than one organisation -- sports club, family, etc -- each satisfying one or more of the individual's needs.
- Organisational awareness of the nature of the workers' skills and personalities are core to the organisation's continuation. Rigorous outsourcing helps a company remain agile and cohesive.
- No guaranteed motivational formula exists for managers or consultants to create an immediately motivated staff. However, experiments have clarified the processes, each of which is complex and particular to the individual and the situation.
- The contractual organisation representation can also be used to manage additional bodies such as customers and governments.

cons:

- The three contracts are stereotypes. In most cases all three types work simultaneously. The process of efficiently defining and honouring a psychological contract is delicate and dependent on the capabilities of parties involved.

references:

- Understanding Organizations
<http://www.amazon.com/gp/product/0140156038?ie=UTF8&tag=provenmodels-20&linkCode=as2&camp=1789&creative=9325&creativeASIN=0140156038>
Charles B. Handy • 1976 • Penguin • United Kingdom • ISBN 0140156038