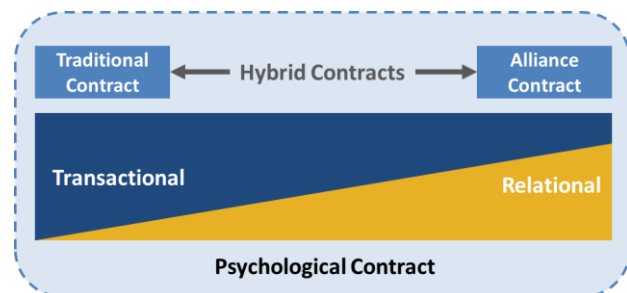


*This paper is the first in “The Psychology of Contracting” series launched by Shape Consulting. This distinctive set of papers provides the industry with an overview of the key psychological elements that are at play throughout the project lifecycle. The intent is to support the development of multi-dimensional knowledge within the industry that will ultimately support more effective contracting and project delivery.*

*As the first in the series, this paper will set the scene for understanding more about psychological contracts and the impact that the subconscious can have in relation to the successful execution of a transactional contract. This will provide the reader further insight into the importance of collective alignment and clear articulation of expectations between parties to deliver successful projects.*

Within the construction and infrastructure industry, the contract is king. Traditionally, the purpose of the transactional contract has been to bind together parties to define and regulate the outcomes and enable the delivery of the project. Rousseau and McLean Parks (1993) define the transactional contract as the “clear definition of deliverables and rewards.” In this sense, it provides the framework that clearly defines responsibilities, expectations and outcomes and creates the foundation for which the parties will engage for the delivery of the project.

The purely transactional contract creates a context whereby the interaction of the parties to the contract is based purely on managing and apportioning risk. It was at this point that the contract could become a trigger for creating an adversarial, litigious focused environment, which in turn had varying levels of impact in relation to the ultimate project outcomes being experienced. The evolution of alliance contracts has been a deliberate response to this through introducing and grounding relational principles within the transactional context. Although controversial initially, it was at this point that we saw the **transactional exchange and relational intent align**.



As the industry has progressed, the multitude of alliance journeys has led to differing perceptions regarding value and success. We now find ourselves entering an era where these perceptions and experiences have elicited an eruption of hybrid contract models, each carefully crafted with a unique mix of transactional and relational elements to support the nature of the project and its priorities. More often than not, the intention of a hybrid contract is to capture the benefits of both transactional (perceived to be better value) and the

relational (perceived to be the ideal relationships for effective delivery).

Regardless of whether a transactional, relational or hybrid contract is selected as the most appropriate for the project, it is essential to observe and understand that underpinning the 'stated' contract is an 'unstated' psychological contract.

**A psychological contract** is formed when both parties perceive that an exchange of promises has been made (Conway and Briner, 2005). In a practical sense, when it comes to creating any form of contract, it is essential to understand that each party brings with them a set of 'spoken' expectations as well as a set of 'unspoken' expectations. Perceived promises can be created out of both the spoken and unspoken expectations.

As enduring 'experimentation' occurs with the various hybrid contract models, there is an increased likelihood that the 'spoken' intent, principles and outcomes do not match the expectations of the alternate party.

The process of psychological contracting is complex – psychological contracts can be created in a formal sense (i.e. when there is an understanding between both parties that they are engaging in the development of a contract) and through our many and varied informal interactions (e.g. water cooler conversations and glances across the table). In the context of a major project with multiple organisations, stakeholders and individuals; the potential number of psychological contracts to be created is endless.

In applying this psychological theory to the current major project contracting environment, the sudden propensity towards hybridised contracts creates

some potential risks.

A typical risk with these models for example is the 'cut and paste' approach to behavioural principles that are generally taken from alliance models. The key to the success of an alliance model is that the relational and transactional drivers are inextricably linked within the contract. The risk for a hybrid model is that the relational principles are included in the contract 'for good measure' without being firmly grounded in the transactional contract.

The growing experience of the industry in alliance projects brings with it a set of expectations around what these relational principles look like in practice. The experience and familiarity with these relational principles in turn creates an assumption that all parties are 'on the same page' in how these principles will translate throughout the project. Out of these assumptions come a set of perceived promises formed by the individuals and organisations making up the project. This complexity is multiplied as we consider the varying experiences and numbers of parties involved.

The real impact to the successful delivery of a project comes from breaches to the psychological contracts that have been formed. Breaches may occur at an objective or a subjective level. Objective breaches can be evidenced.

**Subjective breaches occur when there is a perceived failure of expectations or promises not being met.**

Where a subjective breach occurs, the offshoot is an emotional rollercoaster of feelings including disappointment, frustration, anger and resentment (van de Ven, 2009). Ultimately these feelings result in a sense of loss, or impact on the level of trust, and can create a downward spiral of behaviours that impact on the ultimate delivery of the project. In each project, the sheer number of potential psychological contracts that are created drives the number of potential breaches that may occur.

### So what does this mean for the future of major project contracting...?

Whilst in creating a hybrid contract one may intend to achieve the best of both worlds, it is unlikely to generate magic without considering the inherent 'dance' that takes place in psychological contracting.

Ultimately, whether a purely transactional, relational or hybrid contract is favoured, there is the potential to identify and select a contract model that best meets the unique and individual needs of the project.

A transactional contract containing a set of 'cut and paste' intent statements without dialogue is barren, and inevitably lends to later psychological breaches. It is the nature of the interactions and the dialogue between parties which allows a release of the relational contract expectations. The articulation of real expectations and informed choices around engagement provides the opportunity for all parties to place their specific needs, wants and expectations on the table without prejudice. The contract mechanisms are then adjusted as to 'wed' with these expectations.

Once established, these expectations and agreements need to be regularly checked and

assessed throughout the duration of the project (Robinson, Kraatz and Rousseau, 1994). The mechanisms that operationalise the contract should be moulded to support the desired relational contract.

A prominent risk that exists for the industry is the potential for a reliance on relational principles within a contract as the mechanism for creating and maintaining the relationship, rather than engaging and achieving true and explicit alignment around needs, wants and expectations. The opportunity which needs to be seized is to create **real meaning** and **context** around **each individual project**. Clear contracting frameworks embed and ensure performance for the duration of the project. These should be revisited on a regular basis, specifically when the parties involved in the initial contracting process leave or change roles on the project.

Whilst the process of effective psychological contracting is complex, the inherent principles that underpin it are not so. The leading edge contributors to the contracting industry will continue to explore the union of the transactional and relational components of psychological contracts and by returning to first principles, we can then consider how psychological contracting can be transferred to untapped contracts and industries.

***Industry Contribution made by:  
Hannah Eddy and Jessica Gallienne, 2011***

## About Shape Consulting

Shape Consulting is a leading team of consultants who develop high performance teams, create constructive cultures, design effective and enduring organisational strategies and help deliver and manage change in both the public and private sectors.

Within Shape Consulting, the Performance Practice Group specialises in partnering with major capital projects in the infrastructure, mining, gas and development industries to awaken the potential of teams in order to reach the ultimate project outcomes.

We are committed to partnering with teams to customise solutions to meet specific needs and to provide maximum value.

Our experienced consultants have a broad range of experience which includes private and public projects, alliance, hybrid and traditional delivery projects, program and project teams, selection preparation and project delivery enhancement services.

For more information about Shape Consulting, please go to [www.shapeconsulting.com.au](http://www.shapeconsulting.com.au) or contact our consultants on 07 3357 3339.

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