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**Balanced Contracting in the
Ambidextrous Organization**

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Balanced Contracting in the Ambidextrous Organization

Abstract

This paper addresses the challenge for Human Resource Management (HRM) to contribute to ensure »flexibility« and »stability« simultaneously by generating a portfolio of employees holding different career aspirations. It will be argued that »balanced contracting« is a key factor for »unlocking« the organization and fostering change and adaptation. At the same time it is ensuring necessary »stability« in the organization. As organizations become »ambidextrous« seeking »stability« and »flexibility« at the same time in order to »exploit« old businesses and »explore« new businesses (TUSHMAN/O'REILLY 2002; O'REILLY/TUSHMAN 2004), HRM must be able to align its »contracting« procedure to the different »organizational logic« of the »explorative business units« and the »exploitative business units«. It must attract and select predominantly individuals seeking a relatively stable long term employment and a traditional »organizational career« for the »exploitative business units« and at the same time predominantly individuals who are seeking a rather short term flexible employment relationships for the »explorative business units«. Being able to employ an appropriate »balanced contracting« will ensure that HRM contributes to maintain »stability« and to facilitate »flexibility« at the same time.

1 Introduction

In markets characterized by rapid and discontinuous changes, organizations need to be »flexible« and must exhibit a high degree of »adaptive capacity« (STABER/SYDOW 2002) in order to survive in the long run. This assumption has triggered the development of various new »organizational forms« intended to enhance organizational flexibility. It has also triggered the proliferation of the »new« employment contract which is governing the relationship between employers and employees. The »old« employment contract containing long term commitment and loyalty to the firm and continuous engagement with work as well as a relatively high job security and the opportunity to make a career within the employing organization has been recently declared to be dead (CAPPELLI 1999). However, the »new« employment contract accentuates rather short term commitment but high engagement and performance oriented long working hours in exchange for immediate performance oriented high pay and opportunity to enhance employability without long term job security. The »new« employment contract has recently become the standard governing the employment relationships in many organizations. It certainly facilitates efforts to »unlock« the organization and enhancing »adaptive capacity« (STABER/SYDOW 2002). However, the tendency to focus exclusively on the task to increase »flexibility« is problematic. Organizations always need some »stability« considering their structure, strategy, culture and the workforce in order to enhance the efficiency of the problem solving processes. Hence, management must ensure that mechanisms exist which are intended to provide »stability« and »flexibility« to the organization at the same time.

Particularly large organizations, however, are not »monolithic entities« but are composed of various business units. Focusing on the »strategic intentions« of the various business units, TUSHMAN/O'REILLY (2002) and O'REILLY/TUSHMAN (2004) suggested to separate an organization conceptually into two parts: one part is dealing with new »emerging« businesses and the other part is dealing with old »established« businesses. TUSHMAN/O'REILLY (2002: 167) are emphasizing that business units concerned with the »exploitation« of existing businesses and business units dealing with the »exploration« of emerging businesses are exhibiting fundamentally different »organizational logics« considering »hardware« (i.e. structure, systems etc.) and »software« (i.e. people, culture etc.). In order to develop and maintain sustainable competitive advantage both kind of businesses are equally important and must be addressed simultaneously by management. It will be the main rationale of this paper – as we will outline in more detail – that both kind of business units need different degrees of »stability« and »flexibility«. HRM must establish different kinds of employment relationships in both types of business units and employ either predominantly the »old« or the »new« employment contract. In this paper, we will elaborate this issue in more detail and shed light on the importance of »balanced contracting« for HRM in the »ambidextrous organization« (TUSHMAN/O'REILLY 2002; O'REILLY/TUSHMAN 2004) as the different requirements of the two different kinds of business units are taken into consideration.

In the first step, we will address the concept of the »psychological contract« (ROUSSEAU 1995; 2004) which must be considered in order to understand the »nature« of the employment relationship. The notion of the »psychological contract« refers to various mutual expectations concerning the employment relationship between the employer and employees. We argue that in the »ambidextrous organization« (TUSHMAN/O'REILLY 2002; and O'REILLY/TUSHMAN 2004) »flexibility« of the workforce is pre-

dominantly required by »explorative« business units, while »exploitative« business units need more »stability« in the workforce. It will be argued that HRM needs to adjust to this differences balancing the employment of the »old« and the »new« employment contract for each kind of business units differently. It must attract predominantly individuals looking for a »traditional organizational career« for the exploitative business units as well as individuals striving to make a new »boundaryless career« (ARTHUR/ROUSSEAU 1996) for the explorative business units. As we will argue, the need of primarily employing individuals working for a rather long term period in exploitative business units and employing primarily individuals working for a rather short term period in explorative business units is of pivotal importance for the success of the »ambidextrous organization« (TUSHMAN/O'REILLY 2002; O'REILLY/TUSHMAN 2004). Explorative business units need predominantly a »flexible« short term high performance oriented workforce while exploitative business units predominantly need a more »stable« long term performance oriented workforce. In the next step, we will argue, that HRM must ensure a »fit« between the kind of »psychological contract« offered by the organization and the »psychological contract« requested by the individual and vice versa. Ensuring »coherence« between the expectations of both parties will help to establish harmonious employment relationships while dissonance will increase the likelihood of disharmonious employment relationships and should be avoided.

2 The Old and New Psychological Contract

The »employment relationship« between the organization as the employer and the individuals working for the organization is governed by

the employment contract both parties have agreed on. The legally binding written employment contract establishing the relationship between the employer and the employee, however, addresses only very basic expectations and obligations of both parties in the exchange relationship. Most mutual expectations are not addressed in the written employment contract and remain often the object of implicit or explicit verbal or implied expressions requiring interpretation. The notion of the »psychological contract« (ARGYRIS 1960; ROUSSEAU 1995; 2004) refers to this unwritten part of the employment contract and underlines that both parties will develop individual interpretations of the often implicit held expectations of the work relationship (HERRIOT et al. 1997: 151). The idea of the »psychological contract« refers to the beliefs employees hold on the terms of the exchange relationship between the organization represented by various agents and themselves (ROUSSEAU 1995: 9). However, the »psychological contract« between an employee and the organization as the employer is highly idiosyncratic and the way how the contract is interpreted will have important consequences for the behaviour of both parties (ROUSSEAU 1995: 7). The »psychological contract« contains various expectations of the employees and employers like fair pay, just treatment and appropriate training as well as loyalty to the organization, high engagement with work and flexibility (HERRIOT et al. 1997). In addition, the career aspirations of the individual and therefore the commitment it is seeking to make to the organization and the career opportunities offered by the organization are also one of the key components of the »psychological contract« (ROUSSEAU 1995: 104). Even though the content of the »psychological contract« between an individual and the organization includes many idiosyncratic elements, ROUSSEAU (1995: 91; 2004) SPARROW (2000), and KISSLER (1994) claimed that certain characteristic patterns can be found which allows to distinguish different kinds or types of »psychological contracts«.

ROUSSEAU (1995; 2004) proposed to distinguish the »relational contract«, the »transactional contract« as well as the »balanced contract« as three different types of »psychological contracts«¹. The »relational contract« refers to mutual expectations including loyalty, long term commitment and reliability as well as sustainable contribution to the organization by the employee and the provision of a relatively long term job security, long term career opportunities and development in the organization, trust and particular consideration of the individual circumstances by the employer. ROUSSEAU (2004: 122) outlined that the »transactional contract« is characterized by the fact that the employer requests a closely specified contribution from the employee for moderate pay without any commitment for long term employment. The employment relationship between the individual and the organization is likely to be terminated as soon as the employees will find better employment conditions in other organizations but the organization will be able to replace the employee rather easily by other unskilled or semi-skilled workers. ROUSSEAU (2004: 112) stressed that »transactional relationships« are predominantly offered to workers with narrow duties, are limited and only short term employment prospects are offered. However, the »balanced contract« as the third type of »psychological contracts« is - according to ROUSSEAU (2004: 122) - characterized by the fact, that employers do not provide long term job security or career development within the organization but provide challenging short term projects and

¹ ROUSSEAU, D. M. (1995) distinguished types of the »psychological contract« based on the extent of »transactional« and »relational« attributes while focusing on the time frame, formalization, stability, scope, tangibility, inclusion and focus of the work contract. The »transactional« and »relational« contract are conceptualized as opposites on a continuum and the »balanced contract« (hybrid) is combining elements of the »transactional« and the »relational contract«. However, ROUSSEAU (1995) also mentioned the »transformational contract« which will not be considered in this paper as it refers to employment relationships in a particular situation organizations might be confronted with.

performance oriented high pay as well as the opportunity for the individual to enhance its employability. Employees tend to perceive the employment relationship as an opportunity to gain experience, extend their knowledge and employability, receiving high pay as immediate compensation for their efforts in exchange for long working hours and high engagement with the tasks they are concerned with (ROUSSEAU/WADE-BENZONI 1995). ROUSSEAU (2004: 122 p.) underlines that »balanced contracts« are combining the »open-ended time frame and mutual concern of relational agreements with the performance demands and renegotiation of transactional contracts. Balanced contracts combine commitments on the part of the employer to develop workers (both in the form or elsewhere if need be), while anticipating that workers will be flexible and willing to adjust if economic situations change«.

This »balanced contract« is the psychological foundation of the »new« employment relationship in contrast to the »old« employment relationship which was based on »relational contracts«. The »old« relational contract enabled the individual to rely on the prospects of a linear upward mobility within a single organization. The classical »organizational career« is based on long-term achievement and potential as well as on seniority which requires long term commitment of the individual and the organization at the same time (PARASURAMAN et al. 2000: 69). In contrast, »boundaryless careers« (ARTHUR/ROUSSEAU 1996) are triggered by the »new« employment relationship as the time horizon for the employment relationship is rather short term and task oriented and career is based on many intra- and interorganizational lateral and non-hierarchical moves (PARASURAMAN et al. 2000: 69). However, in employment relationships governed by the new »balanced contract« high performance and achieved results are immediately financially rewarded and career opportunities in the organization will be offered promptly in order to retain the high performing individual employee.

Figure 1: The Old and New Contract

| Old | Employment Contract | New |
|---|---------------------|--|
| The organization is ,parent' to employee ,child'. | | The organization and employees enter into ,adult' contracts focused on mutually beneficial work. |
| Employee's identity and worth are defined by the organization. | | Employee's identity and worth are defined by the employee. |
| Those who stay are good and loyal; others are bad and disloyal. | | The regular flow of people in and out is healthy and should be celebrated. |
| Employees who do what they are told will work until retirement. | | Long-term employment is unlikely; expect and prepare for multiple relationships. |
| The primary route for growth is through promotion. | | The primary route for growth is a sense of personal accomplishment |

Source: KISSLER (1994: 338)

In the past, most organizations offered predominantly »relational contracts« to their employees asking for long term commitment and loyalty and providing a relatively secure job with long term career opportunities within the organization. Most employees on the other hand were quite comfortable knowing that their employment relationship was governed by a »relational contract«. However, as CAPPELLI (1999) and others have recently claimed, traditional »career jobs« enabling hierarchical advancement in one or few organization based on long term commitment of employees and employers are »dead«. Even though this proposition is certainly an exaggeration, many organizations tend currently to signal their employees that the employment relationship is based on a »balanced contract« or even a »transactional contract« while the old »relational contract« seems to be out of fashion.

Employing predominantly the »balanced contract« or even the »transactional contract« for establishing the employment relationship between the employing organization and the individual employee contributes to »unlock« the organization. Nevertheless, it seems that exclusively or predominantly using »balanced contracts« or »transactional contracts« has negative impacts as the retention of important employees becomes more and more problematic. Many employees have meanwhile adjusted their career expectations, aspirations and plans in order to cope better with the conditions of employment relationships based on the »new« employment contract. These individuals are prepared to work long hours and demonstrate high performance and engagement but only in exchange for immediate high compensation and career prospects for successfully accomplished projects. Due to missing long term commitment they are more likely to leave the organization as soon as they find an employment opportunity offering better conditions and more challenging tasks. This attitude of many employees and the decreasing loyalty of many individuals to the employing organization is problematic as organizations need a certain degree of »stability« next to a certain degree of »flexibility« in their workforce. However, the importance to maintain »flexibility« (enhancing adaptation) and »stability« (enhancing efficiency) simultaneously within the organization is the key issue TUSHMAN/O'REILLY (2002) and O'REILLY/TUSHMAN (2004) addressed while outlining the concept of the »ambidextrous organization« as one new kind of an organization model. In the next section of this paper, we will shortly outline the key issues TUSHMAN/O'REILLY (2002) and O'REILLY/TUSHMAN (2004) tackled outlining the concept of the »ambidextrous organization« before we will continue to address the importance of »balanced contracting« in the »ambidextrous organization«.

3 The Ambidextrous Organization

In order to generate sustainable competitive advantage, organizations must ensure simultaneously the efficient »exploitation« of already existing products or services as well as the »exploration« of new products or services (TUSHMAN/O'REILLY 2002; O'REILLY/TUSHMAN 2004). The efficient production of existing and successful products and services must ensure that the organization is able to generate the revenues which are necessary in order to be able to invest for new innovative product development. TUSHMAN/O'REILLY (2002) stressed that particularly successful organizations might fall into the trap to exploit successfully existing products but neglect the development of new innovative products. Successful products at a certain point in time are the »fruits« of past investment and the innovation of new products are ensuring that there will be »fruits« in the future which can be »harvested« by the company. The future performance of the organization and hence its chances to survive in the long run will be largely determined by the ability to innovate as the organization is »winning through innovation« (TUSHMAN/O'REILLY 2002). However, »incremental innovations« are minor changes of existing products or services which will allow to increase quality and efficiency and - ceteris paribus - will generate more value to the customer and the organization (TUSHMAN/O'REILLY 2004). In addition to »incremental innovations«, organizations need to ensure that also »architectural« and »discontinuous innovations« are generated. The notion »architectural innovation« refers to the idea that new technological or process developments are used in order to change some significant components or elements of existing products or services while the term »discontinuous innovation« refers to the development of novel products or services

(TUSHMAN/O'REILLY 2002: 160pp.)². »Incremental innovations« are generated as already existing knowledge is »exploited« in the organization while »architectural« and »discontinuous innovations« are the result of »exploration« processes as new knowledge is generated (MARCH 1991; LEVINTHAL/MARCH 1993). TUSHMAN/O'REILLY (2002) and O'REILLY/TUSHMAN (2004) underlined that both, »exploitation« and »exploration« of knowledge and hence »incremental« and »architectural« as well as »discontinuous« innovations of products or services are equally important in order to generate and maintain sustainable competitive advantage. TUSHMAN/O'REILLY (2002) proposed that both challenges must be considered to be equally important as »exploitation« is determining short term performance while »exploration« is determining long term performance.

O'REILLY/TUSHMAN (2004) continued to suggest that the »existing businesses« concerned with the »exploitation« of existing products and the »emerging businesses« dealing with the creation or »exploration« of new products and services should be structurally separated. Businesses units dealing with the two different kind of businesses tend to exhibit different and conflicting »organizational logics«. O'REILLY/TUSHMAN (2004) maintain that successful organizations are characterized by the fact that their various business units are - according to their main »strategic intent« – structurally bundled and allocated to one of the two different kind of businesses. Those business units concerned with the »exploitation« of existing products or services are structurally part of the »existing business division« while all business units concerned with the »exploration« of new products and services are allocated to the »emerging busi-

² TUSHMAN/O'REILLY (2002) refer with their distinction of various types of innovations to HENDERSON/CLARK (1990) who originally differentiated between »incremental innovation«, »modular innovation«, »architectural innovation« and »discontinuous innovation«.

ness division«. It is important to underline that the operating business units in each of the two divisions are characterized by the same »strategic intent« (O'REILLY/TUSHMAN 2004) and the same »organizational logic«. The comparison of key aspects the business units in both types of businesses differ will shed light on the different and conflicting »organizational logic« (O'REILLY/TUSHMAN 2004).

Figure 2: Exploitative and Exploratory Business

| Alignment of: | Exploitative Business | Exploratory Business |
|--------------------------|--|---|
| Strategic intent: | Cost, profit | Innovation, growth |
| Critical tasks | Operations, efficiency, Incremental innovation | Adaptability, new products, Breakthrough innovation |
| Competencies | operational | entrepreneurial |
| Structure | Formal, mechanistic | Adaptive, loose |
| Controls, rewards | Margins, productivity | Milestones, growth |
| Culture | Efficiency, low risk, Quality, customers | Risk taking, speed, flexibility, experimentation |
| Leadership role | Authoritative, top down | Visionry, involved |



Ambidextrous Leadership

Different alignments held together through senior-team integration, Common vision and values, and common senior-team rewards.

Source: O'REILLY/TUSHMAN (2004: 80)

O'REILLY/TUSHMAN (2004) stressed that the »strategic intent« of the business units dealing with existing products and processes (»exploitative businesses«) is primarily to minimize costs and maximize profits by focusing on increasing efficiency, quality and reliability of already available products and services. In the »exploitative« business units, routine, efficiency, quality and »incremental innovations« are the key issues

which must be addressed in order to maximize profits and minimize costs. The key competencies employees must develop are related with the quest for »operational excellence«. Fluctuation in the workforce must be considered to be disturbing and should be minimized. Business units concerned with »exploitative« businesses are likely to be characterized by highly formal and mechanistic structures and a culture which emphasizes efficiency, low risk taking and strong quality orientation. The relatively strong bureaucratic and therefore hierarchical structure of the »exploitative« business units, however, offer classical career opportunities in terms of moving »upwards« on the hierarchical ladder. In these business units, a relatively high degree of »stability« is necessary in order to be able to put the »strategic intent« into action. Hence, employees working in these business units should predominantly make a rather long-term commitment allowing the organization to make use of their experience (»learning curve«) in order to increase the efficiency and quality of the production process and to foster »incremental innovation« as existing knowledge can be better »exploited« (MARCH 1991; LEVINTHAL/MARCH 1993).

On the other hand, the »strategic intent« of the business units dealing with emerging products (»exploratory business«) is to leverage innovation and ensure the growth of the corporation in the future. Business units dealing with »exploratory businesses« are more likely to be characterized by relatively loose and adaptive organic structures as well as by a culture which is emphasizing risk taking, speed and »flexibility« as well as experimentation. The structure of »explorative« business units is relatively loose and adaptive as they are exhibiting characteristic features of »ad hocraties« (MINTZBERG 1983). High performance is immediately rewarded by high pay or rapid career advancement but no long term career opportunities and prospects are offered. Career is more likely to be defined by taking over more responsibilities in the same pro-

ject or in new projects, and lateral moves of the employees within the organization and between organizations are more likely. In these business units, a relatively high degree of »flexibility« of the workforce is necessary and requested. Hence, employees should predominantly make rather short term commitments being ready to move within the organization and to other organizations in order to facilitate organizational adaptation. Innovation is fostered as new knowledge is more easily »explored« (MARCH 1991; LEVINTHAL/MARCH 1993).

However, it is important that top-management must ensure the integration of the two structurally separated business divisions of the corporation (O'REILLY/TUSHMAN 2004: 75). In the »ambidextrous organization« (TUSHMAN/O'REILY 2002; O'REILLY/TUHSMAN 2004), both kinds of businesses units must be considered to be equally important. However, the different »operational logics« of both businesses are triggering the question which kind of employment relationships or »employment contracts« (»psychological contract«) should prevail in the workforce. We will continue to address this important issue in detail in the next section of this paper.

4 Balanced Contracting and Congruency

The business units of the two different kind of businesses divisions in the »ambidextrous organization« (TUSHMAN/O'REILY 2002; O'REILLY/TUSHMAN 2004) need predominantly different kind of employment relationships or »psychological contracts« with their employees. For the »exploitative« business units it must be ensured that most employees

are exhibiting a rather long term commitment and loyalty and that adequate opportunities for making a traditional »organizational career« in a rather long term perspective are provided. In order to increase the »efficiency« of the production process and to foster the »exploitation« of existing knowledge (i.e. services and products) (MARCH 1991; LEVINTHAL/MARCH 1993) rather long term committed, loyal employees who are expanding their experience and are committed to learning and regular performance are required. This means that the organization should predominantly recruit individuals offering loyalty and long term commitment. Moreover, they should be interested in making a classic »organizational career« in exchange for relative long term job stability, and reliable but deferred compensation. However, for the »explorative« business units it must be ensured that for most employees a rather »balanced contract« will be established. Due to the experimental and temporal character of the emerging business units it is necessary to »unlock« the relationship between the organization and the individual. Long working hours, the risk of failure, high engagement and high performance are exchanged for high pay and immediate compensation and the chance to enhance employability while contributing to a challenging project. However, the organization will not provide long term job security and offer possibilities for a classical »organizational career« but rather opportunities to move lateral within the organizations or even support the wish of employees to move on to work for other organizations. However, it does not seem to be reasonable to hire employees for the »explorative business units« or »exploitative« business units based on a »transactional contract« as this kind of employment relationship resembles almost market like »ad hoc« relationships which undermines the very advantage of the organization as an »institutional arrangement« (WILLIAMSON 1985) which offers reliability and predictability.

Even though it should have become clear that it is necessary that most employees in the »explorative business units« should hold a »balanced contract« in order to ensure a relatively high degree of »flexibility« of the workforce, some employees should nevertheless hold a »relational contract« as some »stability« is also needed. Expertise and particularly »tacit knowledge« (POLANYI 1967; 1985) needs to be retained in the organization after the innovation is accomplished and the »exploitation« business unit will be terminated or integrated into the »exploitation« businesses division. In »exploitative« business units, however, some employees should hold a »balanced contract« in order to ensure a minimum degree of »flexibility« while maintaining »stability« of the workforce is the main task for HRM. Hence, most employment relationships should be governed by »relational contracts«. It is important to point out that the particular mix and hence the appropriate balance between individuals whose employment relationship is based on »relational contracts« and those whose employment relationship is based on »balanced contracts« must be determined by a strategic »thinking« HRM. Hence, »balanced contracting« within the »ambidextrous organization« (TUSHMAN/O'REILY 2002; O'REILLY/TUSHMAN 2004) refers to employing simultaneously the »relational contract« (old employment contract) and the »balanced contract« (new employment contract) in order to foster »flexibility« (»unlock«) and »stability« (»lock«) of the workforce to different degrees in both kinds of business divisions.

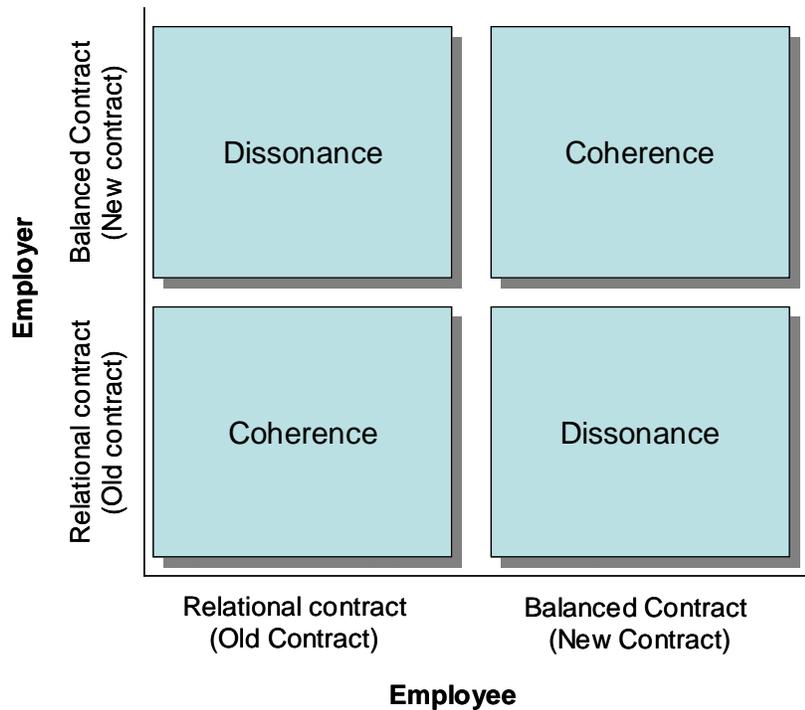
In addition, HRM must ensure a »fit« or congruence between the employment contract the individual is looking for and the kind of employment contract the organization is willing to offer to the individual. It is important to ensure the establishment of harmonious »employment relationships«. However, this is only possible if HRM is ensuring a »coherence« between the kind of »employment contract« an individual is looking for and the kind of »employment contract« the organization is willing

to offer to the individual. If this »fit« or »coherence« will not be ensured from the very beginning on, the »employment contract« is likely to be considered soon to be violated as the expectations of at least one side of the two parties in the exchange relationship will be frustrated. Empirical research which was so far concerned with the consequences of the violation of the »psychological contract« demonstrated that violating the »employment contract« can have various negative consequences as it may cause reluctance to work properly and may even cause destructive behaviour at the workplace (ROUSSEAU 1995: 135) and should therefore be avoided. In order to provide a heuristical device for ensuring »fit«, we combined the individual's expectations and the organization's offers concerning the »nature« of the »employment relationship«. Focusing only on the »balanced contract« and the »relational contract« as primarily these two kind of »psychological contracts« should be employed in »ambidextrous organizations« (TUSHMAN/O'REILLY 2002; O'REILLY/TUSHMAN 2004), we can distinguish four combinations:

In the first cell of the matrix (upper right corner), the individual is looking for establishing a »balanced contract« and the organization is also offering a »balanced relationship«. Hence, there will be a »coherence« between the mutual expectations of the employment relationship. If the individual employee is seeking to establish a »relational contract« with the organization, looking for relatively long term job prospects and relatively high employment security as well as the opportunity to make a traditional »organizational career«, and if the organization is on the other hand also looking to retain the individual employee in the company for a rather long term period asking for loyalty and intending to draw on the experience of the individual in order to increase the efficiency of the production, the basis for a harmonious »employment relationship« is established. The individual is looking for career prospects in the organization in the long run and the organization is accommodating to this de-

mand by providing the necessary hierarchical structure («bureaucracy») as career is traditionally seen as climbing »up the ladder«.

Figure 3: Ensuring Coherence and avoiding Dissonance



Source: Own Figure

However, the remaining two combinations of the »employment contract« offered by the employer and requested by the employee are causing a »misfit« and will create »dissonance« in the employment relationship. If the individual is looking to establish a »relational contract« but the organization is offering a rather »balanced contract« but is not making this fact clear by signalling explicitly the »nature« of the offered »psychological contract« (or might even intentionally provide incorrect information), the individual will be sooner or later frustrated and might withdraw its knowledge, engagement and might even get involved in some kind of

destructive behaviour. Moreover, if the organization is looking to establish an employment relationship with an individual based on the »relational contract« and assumes that the individual is also looking for a »relational contract« which, however, might not be the case, then the organization might get frustrated by unexpected behaviour of the individual employee. Last but not least, individuals who are looking to establish an employment relationship based on »balanced contracts« and who become aware that the organization was in fact offering a »relational contract«, are also likely to become frustrated and might withdraw their effort and knowledge and leave the company with important expertise. The establishment of employment relationships based on »dissonance« in terms of different ideas about the »nature« of the »psychological contract« between the employer and the employees must be avoided. An established employment relationship based on incorrect perceived or signalled expectations will cause serious problems and conflicts as it will lead to the perception of »contract violation«.

For instance, in order to ensure that the organization might not be frustrated by unexpected behaviour of individuals who have assumed that their employment relationship is based on a »relational contract« and hence are not willing to work long hours, to show permanently high engagement with their work and demonstrate high performance while the organization was expecting to establish a »balanced contract«, prospective employees must be encouraged to express their expectations concerning the nature of the »employment contract« in terms of the »psychological contract« they are willing to make. It must be considered to be an important task of recruiting new employees to ensure that prospective employees are revealing their genuine expectations concerning the »psychological contract« with the organization. However, on the other hand, as ROUSSEAU (1995: 70) stressed, there must be a »realistic recruiting« by the organization. It must be clearly signalled which kind of

»employment contract« the organization is offering to the individual so that the prospective employees will get a realistic idea of the »contractual basis« or »nature« of the employment relationship. This particularly concerns HRM but also other agents who are representing the organization and are involved in the recruiting process, like supervisors and members of the work-team (ROUSSEAU 1995: 60 pp).

5 Conclusion

In this paper, we discussed the »psychological contract« outlining that the employment relationship between the employing organization and employed individuals are determined by unwritten and often implicit expectations about mutual commitment and career expectations and offers. ROUSSEAU (2004) distinguished three types of psychological contracts, i.e. »relational contracts«, »transactional contracts« and »balanced contracts«. SPARROW (2000), KISSLER (1994) and others have outlined that the »old« employment contract (»relational contract«) and the »new« employment contract (»balanced contract«) contain fundamentally different concepts of employment relationships. With the »old« employment contract, the individual offered the organization a rather long term commitment as well as engagement and loyalty accepting a modest pay and deferred compensation in exchange for a relatively long term and secure job as well as career development prospects within the organization. With the »new« employment contract, the organization is offering challenging and rather short term and project oriented work without long term job guarantee but also high immediate compensation and the chance to enhance expertise and experience in order to in-

crease employability. The employees on the other hand are willing to work long hours and demonstrate high engagement and high performance as well as »flexibility« for immediate compensation and high pay. In addition, career is considered as being able to make rather easily lateral moves within the organization or between organizations.

In the next step, we outlined that according to the concept of the »ambidextrous organization« (TUSHMAN/O'REILLY 2002; O'REILLY/TUSHMAN 2004) the organization must not be considered to be a monolithic entity but should be conceptually separated into two different business divisions. The »explorative« business units are dealing with »emerging businesses« and are particularly crucial for the adaptability of the organization to environmental changes as they are leveraging innovation of new products and services. The »exploitative business units« on the other hand are concerned with enhancing efficiency and quality as well as to cut cost of the production process of already existing products and services. The »exploitative« business units need a relatively reliable and predominantly stable workforce in order to foster organizational learning and incremental innovations. In contrast, the »explorative« business units dealing with »emerging businesses« need to have a rather flexible workforce, as new units dealing with new product innovation might be set up and others are terminated and hence lateral move within the organization or moves to other organizations might be necessary for the employees. In order to recruit individuals with appropriate knowledge and to motivate people to work long hours demonstrating high engagement while being at the same time confronted with a high risk and rather short term employment perspectives, the organization must offer high pay and immediate compensation and possibilities to enhance employability. In the »exploitative« business units, more »relational contracting« is needed as the organizational logic is more suitable for »relational contracting«. It is important to stress, that employment relationships based on »relational contracts« will help to »lock« or »stabilize« the organiza-

tion as fluctuation in the workforce will be kept to a minimum. Nevertheless, also »exploitative« business units need some »flexibility« in terms of its workforce and the employment relationship of some employees should therefore be based on a »balanced contract«. In the »explorative« business units, however, it is more reasonable to rely on a workforce whose employment relationships are based primarily on a »balanced contract«. Individuals holding a »balanced contract« are enhancing the »flexibility« and adaptability of the organization as they are willing to move easily and quickly laterally within the organization or to seek employment in other organizations if necessary. However, it is important that the company ensures that some individuals working in »explorative« business units having acquired important »tacit knowledge« (POLANYI 1967; 1985) will have »relational contracts« in order to ensure that important knowledge remains in the organization.

HRM in the »ambidextrous organization« (TUSHMAN/O'REILLY 2002; O'REILLY/TUSHMAN 2004) must therefore demonstrate that it is able of »balanced contracting« as it will offer both, »relational contracts« (new employment contract) and »balanced contracts« (old employment contracts) at the same time to its employees but to different degrees depending for which kind of business unit the employee will work for. The decision which kind of »employment contract« should be primarily established between the employer and employees depends first of all on the »strategic intent« of the business units. An appropriate »balanced contracting« will contribute to »unlock« (»flexibilization«) the organization particularly in the »explorative« business units while it will help to »lock« (»stabilization«) the organization in the »exploitative« business units. Most employees in the »explorative« business units should hold »balanced contracts« while most employees in the »exploitative« business units should hold »relational contracts« as the organization needs »stability« and »flexibility« at the same time but to different degrees in

the two business divisions. Secondly, a HRM fostering »balanced contracting« must explicitly pay attention to the expectations regarding the »employment contract« (»psychological contract«) requested by the individual. It also must ensure that the individual becomes clearly aware which kind of »employment contract« the organization is offering. HRM should ensure the establishment of »harmonious« employment relationships as it helps to establish a »fit« or »coherence« between the »psychological contract« offered by the organization to a certain individual and the kind of »employment contract« the individual is looking for to make. HRM should pay more attention to this requirement and will henceforth contribute in a more sophisticated way to enhance the performance of the »ambidextrous organization« (TUSHMAN/O'REILLY 2002; O'REILLY/TUSHMAN 2004). Considering the different needs of the two business divisions (»exploitative businesses« and »explorative businesses«) will ensure that HRM is contributing to »unlock« and »lock« the organization fostering »flexibility« and »stability« simultaneously and will therefore become a »strategic partner« (BARNEY/WRIGHT 1998) of the top-management.

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