

# Whitepaper

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Workplace Relationship  
Development Indicator

## Employer of Choice: Putting Substance to the Rhetoric!

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*Organisations that desire to become "employers of choice" must devise strategies and innovative programs which will satisfy a spectrum of both work and personal needs, including tangible and intangible rewards. They need to develop a competitive advantage in recruiting and retaining staff. They need to develop positive psychological contracts with their employees.*

(Anderson & Pulich, 2000)

## Introduction

Talent engagement, development and retention have been elevated in many enterprises to the top tier of objectives - on a par with generating revenue and managing costs. It is in these people where the corporate memory resides. They are often charged with winning market share, attracting investors or new clients, securing large contracts, and having the technical and operational know how to complete large projects. Successful companies will be those that can attract, develop and retain skilled and talented employees. To that end, many companies are arbitrarily claiming employer of choice status as they seek to enhance their reputation.

But what does this term mean? On what basis do organisations claim to be employers of choice? How can these claims be scientifically validated? How do organisations, both large and small, enhance their employer of choice status? This white paper addresses and provides answers to these fundamental questions.

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*Employers of choice should have higher levels of employee engagement and satisfaction.*

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## Employer of Choice: What it Doesn't Mean!

The term “employer of choice” has become a hackneyed phrase in today’s corporate environment. It can mean different things to different people. For some, their interpretation refers to corporate peripheral benefits such as provision of gym memberships, fresh fruit for staff, dry cleaning services, and in one instance of a US company, the provision of dog walking facilities for staff.

It is contended that becoming an employers of choice is not fundamentally about providing more "superficial" or peripheral employee benefits and services - they do not differentiate employers of choice. Rather, employers of choice should by inference, enjoy higher levels of engagement with their workforce and higher levels of employee satisfaction. In fact the bottom line benefits from this approach are considerable according to latest research findings,

## Many Employers of Choice

There are many employers of choice, each for different reasons. Employers of choice compete with each other on the basis of their distinctiveness. They create winning employment propositions or “deals”, tailoring the company / organisation's "brand" and "products" (i.e., the jobs it has to offer), to appeal to the specific people it wants to find and keep. A company / organisation's brand is the face it presents to the world. At its heart must be an appealing culture and inspiring values: qualities that apply to every activity and function within the company, and to every aspect of its behaviour.

A winning employment proposition or “deal” at a more senior management or key specialist level, may be characterised by the following:

- "elbow and head room" (i.e., autonomy);
- a position that stretches but does not defeat (i.e., job challenge);
- something new to work on (i.e., career development and job challenge);
- great colleagues (i.e., supportive environment);
- highly competitive compensation (i.e., competitive salary package, other benefits).

*Note: The items in brackets form part of those items comprising the psychological contract, as measured by the WRDI™ (see later).*

The ability to define, develop, and deliver a superior employment proposition or “deal” will be especially critical for large companies / organisations facing the small company / organisation challenge. Small companies / organisations offer more opportunity to satisfy a desire for:

- meaning;
- excitement;
- flexibility;



- impact; and
- reward.

Small companies may also offer equity ownership in a business that a few talented executives can drive up the share price. However, large companies need not be too defensive, as they possess natural advantages of their own, including the:

- magnitude of the impact;
- depth (the resources to take risks);
- capital (resources to support big decisions); and
- variety of experiences over the course of employees' careers.

## About the Psychological Contract

*The ability to compete effectively may depend on creating psychological contracts consistent with the expectations of customers, and the flexibility demanded by technological changes and the market place.*

(Rousseau, 1995)

### The Psychological Contract

As referred to in the initial quotation in this white paper, the concept of the **psychological contract** lies at the heart of employer of choice claims and validation. The psychological contract is: *the stated and implied set of expectations, obligations, and understandings operating between workers and their employers.* It defines the **essence** of the employment relationship.

The psychological contract is a broader concept than an employment agreement or contract, and includes what has been written, said, and observed. It is not a legal document as such, but it is nevertheless **real** in the minds of employers and workers. The psychological contract is a **powerful determinant of employees' behaviour.**

*Note: An alternative term for psychological contract is employer / employee relationship.*

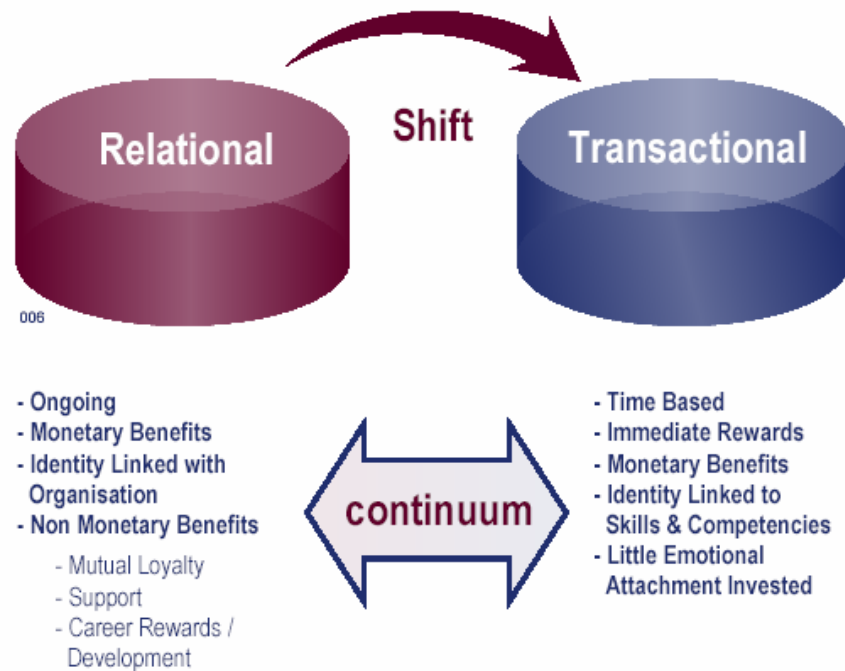
The changing psychological contract has been identified as a key contemporary HR concept, by a number of researchers and writers. The psychological contract comprises a mix of:

- **tangibles** (e.g., pay and benefits); and
- **intangibles** (e.g., support, advancement, job security, etc.).

Psychological contracts vary within a continuum from "relational" to "transactional" with a shift having occurred towards the latter in recent times.



## Recent Shift in the Psychological Contract



### Psychological Contracts Must Link to the Business Strategy

Psychological contracts must link to the business strategy, and will vary across workforce segments, depending on the:

- history and positioning of the business (e.g., start up businesses may offer lower job security and resources, but higher job challenge and % of pay based on performance);
- stability of the external environment (e.g., businesses operating in more stable environments may offer longer term job security);
- nature of customer service and relationships (e.g., businesses involved in “one off” customer transactions are more likely to offer high % of pay based on performance);
- value and knowledge contributed by the position (e.g., senior management and key specialists roles are likely to offer higher levels of rewards and career development opportunities); and
- the emerging needs of employees in the contemporary workplace (e.g., sufficient decision making power and authority, some flexibility in work practices).

For example, those established organisations competing through distinctive forms of customer service in stable environments, tend to train their employees extensively and foster a service orientation. These organisations seek a longer term relationship with their employees (i.e., relational psychological contracts), and hence lower turnover, where cultural norms which support good customer relations are developed.



*However, inappropriate psychological contracts can lead to excessive turnover.*

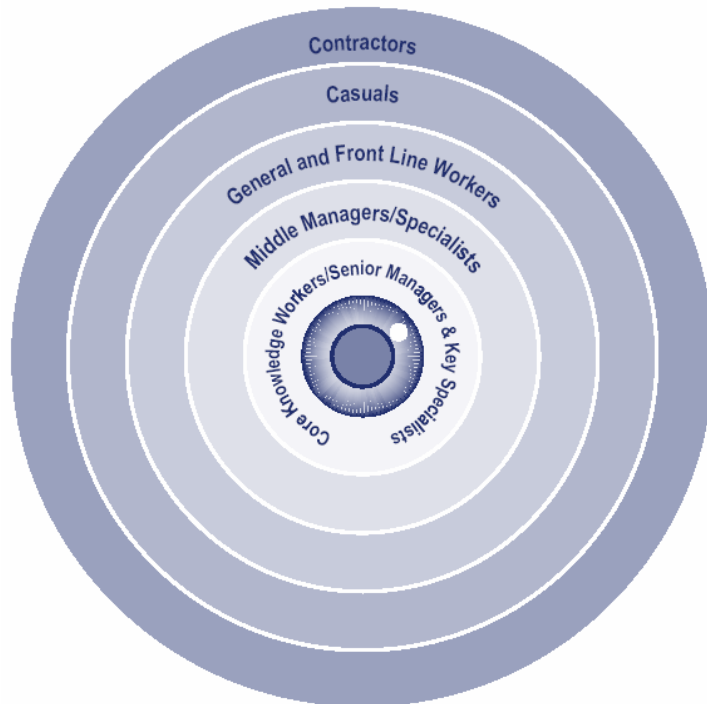
Today, many organisations are opting more for "hybrid" psychological contracts (i.e., a combination of relational and transactional psychological contracts that incorporate performance based pay). Hybrid psychological contracts incorporate shared values and commitment (including intention to stay with the organisation), as well as specified results and time frames. Performance management systems should be effectively integrated with psychological contracts (see point 8).

However, inappropriate psychological contracts can lead to excessive turnover. For example, they may excessively emphasise pay based on short term performance or results, when the development of longer term, quality, customer relationships are critical to business success.

### **Workforce Segmentation – A Best Practice Approach**

A best practice approach to relationship management is to segment the workforce in much the same way as a marketer segments their customers. One size does not fit all! The choice of segments is highly strategic. The core / complementary model of employment is useful in structuring and analysing relationships. In this model, the workforce is viewed as a series of layers (or segments), with an inner core of critical employees (where a significant component of the intellectual capital of the organisation resides), extending through to more peripheral employees and contractors.

### **The Core / Complementary Model of Employment**





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Different workforce segments will require dramatically different psychological contracts or “deals” (i.e., different mixes of tangibles and intangibles). For example:

- senior managers require job challenge and the stimulation of career development opportunities;
- salespeople require recognition;
- professionals value the opportunity to develop technical skills, autonomy in decision making, sufficient resources to do the job, and a supportive boss;
- employees in lower knowledge jobs value a supportive work environment (i.e., being part of the team).

### **Creating Winning “Deals”**

Creating winning “deals” or employment propositions with workforce segments is vital to attraction and retention. The “deal” based on the 16 items comprising the psychological contract (see later), includes both tangibles and intangibles. These items comprise a comprehensive list of key job / workplace characteristics and conditions, and are grouped according to the four broad areas of:

- rewards and recognition (e.g., pay based on performance);
- safety and job security;
- career development (e.g., job challenge, training, autonomy, advancement); and
- support and social aspects of the job (e.g., management support, group support, flexible work arrangements, adequate resources).

*Note: Refer WRDI Institute white paper on Creating “New Deal” Employment Relationships, which further expands on key aspects of the above tangibles and intangibles.*

The challenge is to balance trade offs between benefits and costs, both direct and indirect, across these items. Input from accounting professionals may be required to evaluate and assess the “deal” or total employment proposition. For example, an organisation may be unable to offer a highly competitive salary, but it may be able to offer great career growth prospects as a substitute.

*It is important to have clearly defined, realistic expectations.....*

It is important to have clearly defined, realistic expectations (including both tangibles and intangibles), as to what is being provided to each of these groups or segments. Unspoken expectations may be unmet, giving rise to discontent. These agreed expectations constitute the “deal” or employment proposition. Apart from the nature and delivery of the “deal”, other factors critical to the development of “healthy” psychological contracts are the level of trust existing between employees and management, and employees’ fair treatment.

### **Benefits of a Workforce Segmentation Approach**

A workforce segmentation scheme often identifies pockets of turnover and may lead to a redefinition of job functions / roles. If the employment proposition or “deal” is unsatisfactory to employees (or has not otherwise been delivered), and those employees have the opportunity to join another organisation where that



employment proposition is presumed to be better or otherwise delivered, then they are likely to depart.

## The Psychological Contract and WRDI™

### Measuring the Psychological Contract: The WRDI™

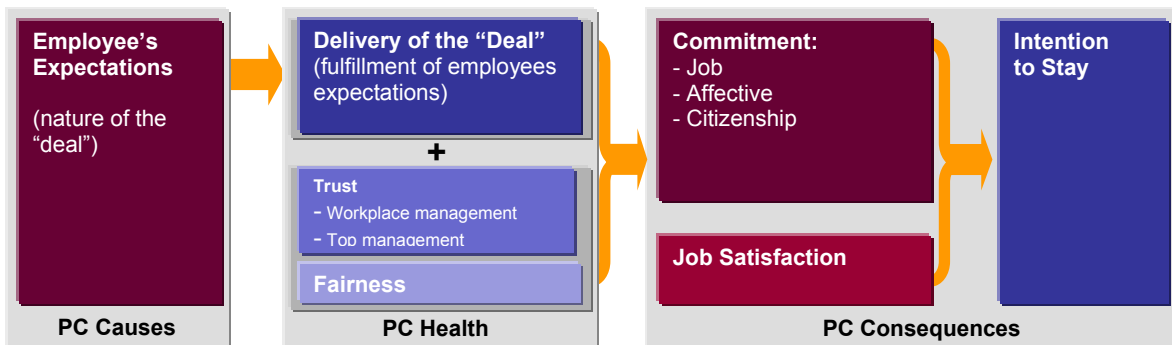
A recent innovation in the HR metrics area is the development of a diagnostic survey tool, the **Workplace Relationship Development Indicator (WRDI™)**. The WRDI™ is based on a research validated model of the psychological contract, and incorporates rigorous psychometric properties.

The WRDI™ measures and diagnoses the “health” and consequences of the psychological contract. The health of the psychological contract includes a measure of the employment proposition or “deal” (including both tangibles and intangibles), and the extent to which it has been delivered. The three key consequences are affective commitment (employee engagement), job satisfaction and intention to stay (with the organisation).

Psychological contracts / employment propositions must be effectively managed. To that end, the WRDI™ provides, by workforce segment:

- a measure of the “deal”;
- a basis for it to be re-negotiated, if appropriate;
- a measure of its delivery (including an analysis of specific items);
- a measure of the “health” of the relationship or psychological contract; and
- a measure and diagnosis of consequences of the psychological contract (including intention to stay).

### The WRDI Part A™ Model of the Psychological Contract (PC): Causes, “Health” and Consequences





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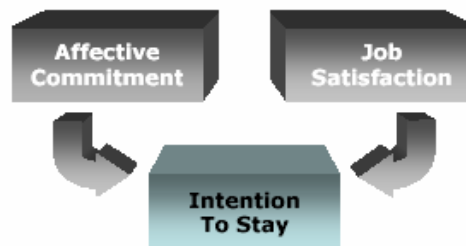
## WRDI™ Puts Substance to the Rhetoric!

Be it for large, medium, or smaller size organisations, the WRDI™ puts substance to the rhetoric of the term “employer of choice”. As indicated earlier, an employer of choice by inference, will have:

- "healthy" psychological contracts with their workforce segments;
- high levels of employee job satisfaction (i.e., person – job “fit”);
- high levels of employee affective commitment (i.e., emotional attachment / engagement or person - organisational “fit”); and
- high intention to stay with the organisation.

Affective commitment and job satisfaction are also the strongest predictors of intention to stay. Intention to stay is the strongest predictor of retention.

### Three Critical Employer of Choice Measures



*Note: Affective commitment and employee engagement are equivalent terms.*

### WRDI™ Report Outputs: AWA Report

One of the WRDI™ report outputs - the Audit of Workforce Alignment (AWA) Report - provides summary information on the above three key employer of choice measures (i.e., the key consequences of the psychological contract). More specifically, the AWA Report predicts:

- how many employees are likely to be “at risk” of leaving, or likely to leave the target organisation; and
- how many employees are misaligned (i.e., have poor “fit”), with either the organisation and / or their job.

Typically this report is produced initially to provide an overall assessment of workforce alignment and retention risk within an organisation (see example next page). The AWA Report is generated from approximately 20 of the 90 items of the WRDI™ questionnaire (refer WRDI™ model)

*Note: The AWA Report can also be applied exclusively to an organisation’s key talent group which typically comprises around 10% of the workforce.*



## Audit of Workforce Alignment (AWA) Report

### Executive Summary

Retention Risk	Management	Sales	Operations	Technical
Stayers	77	73	111	37
At Risk	18	27	41	11
Leavers	7	15	27	2

Alignment	Management	Sales	Operations	Technical
Engaged & Satisfied	71	59	80	35
Engaged but Dissatisfied	14	25	39	12
Disengaged but Satisfied	11	14	29	3
Disengaged & Dissatisfied	6	17	31	0

### WRDI™ Report Outputs: Organisational Development Report

The regular surveying of the workforce constitutes a key strategy for aspiring employer of choice organisations. For group surveying scenarios, individual employee scores are aggregated for various workforce segments. Reporting arrangements are flexible, so that management is able to assess the “health” of employment relationships or psychological contracts, with various workforce segments (e.g., senior managers, middle management, sales personnel, general or front line employees, contractors, etc.). The Organisational Development Report provides the diagnoses of what lies behind the AWA Report findings (refer WRDI™ model). It includes psychological contract profiles comprising the 90 items of the WRDI™.

The WRDI™ findings “pin point” areas of relationship distress or misalignment and pockets of turnover by workforce segments. Targeted interventions, with predictable outcomes, can then be implemented, at an individual, workplace and organisational level, to address deficits. This information provides a basis for management to:

- structure employment propositions or “deals”, for various workforce segments; and
- create “healthy” psychological contracts and alignment of workforce segments.

*The WRDI™ “pin points” areas of relationship distress or misalignment for workforce segments. Targeted interventions can then be implemented, at an individual, workplace and organisational level, to address deficits.*



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## Employee Empowerment and Individual WRDI™ Reports

A number of authors have suggested that employers of choice seek to empower their people. As part of a mass survey, individual WRDI™ Relationship and Career Development (RCD) Reports (i.e., on the “health” and consequences of an individual’s psychological contract), can be generated online. The WRDI™ therefore offers a dual approach, working on a systemic or organisational basis (i.e., top down), as well as at an individual level. These RCD Reports include tailored commentary and interventions, providing employees with a new framework to think about their work life and career development. It serves as the upfront diagnostic tool in so far as assessing the career development needs of the individual.

RCD Report may serve as a powerful catalyst for regenerating and empowering employees concerning their job and career development. It may assist them to focus directly on any sources of frustration and decide on strategies and interventions to deal with them accordingly. RCD Report findings open up new possibilities for constructive dialogue between employees and their employer about important matters.

*Note: Just because an organisation might genuinely claim to be an employer of choice doesn't mean that all employees will be emotionally attached or engaged with the organisation. Just as people vary in their personality and characteristics, so do organisations.*

## WRDI™ Case Studies

### Large Domestic and Global Agricultural Distributor (Individual and Systemic Interventions)

A recent WRDI™ workforce audit of a high profile corporate uncovered some startling information about the “health” of the relationship with its workforce. This large domestic and global distributor of agricultural products was on an expansion trail. People management practices and the retention of key talent were critical to the company’s success.

*“The CEO and executive team were presented with data indicating up to 40% of the top talent in this organisation were at risk of leaving.”*

The CEO and executive team were presented with data indicating up to 40% of the top talent in this organisation were at risk of leaving. In addition to this raw statistic, they were provided with a diagnosis of the specific causes contributing to that risk. *Being presented with “in your face” diagnostic data is one thing, but having a prescription to fix any problems is even more important*, commented one senior executive. He went on to say that *the WRDI™ information was invaluable for the career development of our people and our long term planning and capability. We knew that some of our key people might have been targeted by the opposition, and now we know what we have to do internally, to ensure we keep these people on board and happy.*

A range of individual and systemic career management / development initiatives were implemented in this organisation, consistent with the WRDI™ model on page 8.



## Multi National Recruitment Firm (Systemic Interventions)

In another project, a multi national recruitment firm wanted to examine their people management practices. The WRDI™ data was analysed for various workforce segments. Senior management was more than “happy with their lot” whereas a significant retention risk was identified with the administration and support staff. The segmentation approach adopted avoided the assumption or over simplification of “one size fitting all” regarding diagnosis and interventions. Two simple systemic interventions were adopted, at no cost to the recruitment company, viz:

- changing recruitment practices for administrators (the company had been recruiting graduates for roles in which they could never satisfy their expectations regarding career opportunities);
- restructuring such that a new intermediate position between administrator and consultant (called an associate), was created as a “stepping stone” or articulation career path for those graduates who aspired to consultant status (the previous step from administrator to consultant was too big a jump).

## WRDI™ and Employer of Choice Benefits

### Latest Research Findings and the Psychological Contract

Research findings from a number of studies confirm that higher levels of job satisfaction and affective commitment are also linked to:

- higher employee motivation and performance;
- lower workplace stress; and
- more satisfied customers.

Latest research has also demonstrated the link between “healthy” psychological contracts and enhanced employee commitment (including lower turnover), motivation, and job satisfaction. Furthermore, the link between higher levels of alignment is demonstrated in a landmark U.K. study of around 1000 firms by Patterson, West, Lawthom, and Nickell (1997).





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*Note: In this study, organisational commitment is equivalent to affective commitment.*

Hence there are bottom line and lasting organisational benefits in enhancing the levels of job satisfaction, affective commitment, and retention, and enhancing employer of choice status.

## **Summary**

What gets measured gets managed! The WRDI™ measures give substance to the rhetoric of the term “employer of choice”. The WRDI™ findings:

- validate people management practices;
- offers a scientific and analytical approach for organisations to benchmark (by workforce segment), their employer of choice status, across key human capital measures; and
- provides the knowledge about what levers to pull to address perceived relationship deficits.

The WRDI™ offers a powerful, dual approach, working on a systemic or organisational basis (i.e., top down), as well as at an individual level (bottom up). It has been used across a number of “blue chip” organisations for assessing key talent retention risk, career development, and enhancing people management practices.

*Note:*

1. *There is another WRDI™ reporting output for individuals called the Post Recruitment Assessment (PRA) Report. The PRA Report applies to new recruits to assess their adaptation to the job and organisation.*
2. *The WRDI Institute has also developed a number of programs based around WRDI™ reporting outputs including the:*
  - *Talent Retention Program;*
  - *Workforce Alignment and (Career) Development Program.*

## **Acknowledgements**

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The WRDI Institute is one of the world's leading authorities on human capital, workforce alignment and retention. The WRDI Institute provides HR measurement and solutions in the following areas:

- Human Capital Assessment;
- Retention (including key talent retention risk assessment);
- Talent Management;
- Career Development;
- Organisational Development, including Workforce Alignment and Performance Enhancement;
- Industrial / Employee Relations (EBAs); and
- Post Recruitment Assessment.

The WRDI Institute has developed a suite of white papers on the following contemporary workplace themes:

- Creating "New Deal" Employment Relationships;
- Managing Your Human Capital: The Ultimate Determinant of Organisational Performance?
- Improving the Bottom Line: A Diagnostic Approach to Enhancing Workforce Alignment Through Career Development;
- About Turnover and Retention;
- Retention Intervention: A Strategic Approach;
- The Psychology of Mergers / Acquisitions;
- Employer of Choice: Putting Substance to the Rhetoric!
- The Balanced Scorecard and the WRDI™;
- Managing Expectations: Strengthening Recruitment Practices and Enhancing Retention.

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