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# the psychosocial contract: its nature and effects for Greek industry\*

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## ABSTRACT

The basic focus of this paper lies in the definition of the «psychosocial contract» as a new concept in organization theory, and the discussion of its potential theoretical and practical usefulness. This concept derived out of a research study in the Greek industry and is supported by current organization theory and traditional political philosophy.

The basic problem of the Greek study centered around the topic of success of industrial firms within the Greek economy, success being defined in terms of a systems-effectiveness model. The findings, while supporting previous contingency theories developed in other Western industrial settings, further extended them by adding «Social Accountability» as a major predictor of organizational success. A conceptual model, supported by the Greek data, provided an adequate explanation of differences in success among Greek industrial firms, and suggested a workable «psychosocial contract.» The psychosocial contract, as a theoretical construct, helped to explain the Greek data more conveniently than would be possible without it.

## I. introduction

Although the organizational revolution (together with the industrial revolution and modernization) constitutes a universal phenomenon among developing countries, it cannot be completely unbound from national parameters. The theory of organization has been pervaded by Western ethnocentrism and has little counted for cultural differences. Structural relationships and patterns of organizational behavior have mainly centered around Western (mainly American) organizations, yet the claim for universality is too often made by both the social sciences and schools of administration. It is only in recent years that contingency theorists pointed to the socio-cultural environment as a new important dimension in organizational analysis (Davis, 1971, p. 4). Cultural differences should constitute a problematic area for any student of organization. A major consideration should be given to the prevailing system of values and attitudes, and their relationship to the institutional setting of a given society. For example, the system of values in a society underlies the definition of organizational goals as well as rational economic behavior. Although the problem of universality versus uniqueness in the case of Greek industrial organization will not be discussed in this paper, it should nevertheless be kept in mind as we proceed to the description of a study of the Greek industry conducted in 1973 (Nicolaou, 1974).

The study was designed to test some of the assumptions of recent contingency theory of organizations, developed in other Western industrial settings. We were concerned with a basic problem facing developing countries, that is success of the industrial firm. Success of the industrial firm within an expanding economy constitutes a basic problem for developing countries, like Greece, which emphasize rapid industrialization as a means to economic and social development. The proper identification of predictor dimensions of organizational success is probably the most crucial and important step in the study of organization and the process of industrialization of such countries. The «implications» of understanding and predicting organizational success of the Greek firms are to be found both the micro-and the macro-levels. On the micro-level, prediction of success implies forecasting of organizational efforts and management action; on the macro-level, predicting success is fundamental for industrial development and planning along more rational lines. Also, it implies investment choices, intervention strategies, etc. From a broader point of view, it seems that the study of differences in organizational success is closely related to the developmental efforts of Greece and the attainment of her ultimate goals for economic, social and national progress. Yet, relatively little is known about the systemic relationships which contribute to the success of the industrial firm in general and, for our purposes, the Greek firm in particular.

A brief account of the nation's social patterns and economic realities is warranted, in order to place the main theme of this paper into its broader sociological perspective.

#### *A. The Broader Greek Social System*

The present Greek social system can be conveniently traced to 1821, the year of the War of Independence from four centuries of Ottoman rule. The Greek social system continues to represent an amalgamation of Western and Levantine elements, modernity and traditionality. Greece has continuously faced long periods of war, external and internal conflicts and painful efforts for economic reconstruction and national integration. She has traditionally been an ally of Western powers, and subject to their influence. Within the last twenty years or so, she made the great jump from a peasant underdeveloped country to a modern rapidly developing one.

From 1951 to 1971 Greece, despite the difficult starting conditions and many recurring problems, achieved an average annual growth rate

of 6.4%. GDP (at constant 1958 prices) increased from Drs 57 billion (\$ 1.9 billion) in 1951, to Drs 200 billion (\$ 6.7 billion) in 1971. Per Capita Income increased from \$ 250 in 1951 to approximately \$ 750 in 1971 (at constant 1958 prices).<sup>1</sup>

Such a rate development went along with significant changes in the structure of the Greek economy. Between 1951 and 1971, a substantial reduction occurred of the share of the primary sector in GDP (from 30% in 1951 to 17% in 1971) as well as a reduction of the share of the tertiary sector, although of a much smaller extent (from 50.5% in 1951 to 48% in 1971). Conversely, during the same period, the share of the secondary sector increased from 19% in 1951 to 35% in 1971. The above indicate a critical change in the small and traditionally agricultural economy of the country.

In the area of employment creation certain aspects of development were not entirely favorable. In the early part of the above period substantial unemployment and underemployment persisted, progress in employment had been slow and insufficient to the natural increase in the population of working age. There are recent indications that the nature of the problem is changing as a consequence of the massive emigration of the past decade which took place largely in response to inadequate domestic employment opportunities. Available data suggest that since the early sixties domestic employment has risen by less than 10,000 persons a year, while net emigration of economically active persons may have averaged four times this figure.<sup>2</sup> A labor outflow of that size has created problems. As the emigrating workers tend to be the younger and more ambitious elements of the population the age structure of the remaining population tends to become skewed in the direction of an excessive proportion of older, less productive people. Complaints of labor shortage have begun to be voiced already in some regions and a few unskilled foreign (notably Africans) workers have recently been recruited for employment in Greece.

In respect of income distribution as well some unfavorable developments have been observed. Industrialization has not helped to even out income inequalities. High prices and profit in some parts of industry have widened the gap between industrial and agricultural incomes. The relatively low level of the latter is illustrated by the disproportion between agriculture's share in total labor force (40% at present) and in total output (approximately

1. National Statistical Service of Greece; National Accounts of Greece 1948-70; Provisional National Accounts Year 1972.

2. OECD Economic Surveys «Greece», November 1972.

20%). With a few important exceptions industry is concentrated in or around the Athens area.

The above developments have induced transregional and interregional movements within the country that indicate an appreciable increase in the geographic mobility of the Greek population towards urban areas. The urbanization index has risen from 37.7% in 1951 to 43% in 1961 and 53.2% in 1972.<sup>1</sup>

For the last twenty years in general it can be stated that Greek society is going through a transitional period. Extensive changes and transformation are taking place in most sectors of social life that constitute characteristic expressions of the new reality which is taking shape in Greek society.

The above developments permit us to draw some basic assumptions:

1. Greece is lately undergoing a phase of industrialization and modernization along Western patterns, and is experiencing a change from an agricultural/traditional to a semi-industrial/urban type of society. Industry is gaining ground at the expense of the primary sector, while internal migration and rapid urbanization contribute to the simultaneous development of the third sector. It is only within the last twenty years or so, that Greece's long traditional agricultural structure has shifted significantly towards a more urban occupational structure.

2. Greece lacks an industrial tradition and fully fledged experience of industrial revolution. In the long run, she will probably pass to the post-industrial phase without having actually experienced the critical structural rearrangements and adaptations which have been related to Western industrialization.

It is within the above socio-economic context that industrial organization in Greece should be seen and understood.

We now introduce the reader to a specific study in the Greek industry, in a general summarized form, as a basis of following our rationale in developing a new concept, namely, the «psycho-social contract.» (Nicolau, 1974).

## *B. The Greek Study*

### 1. An Overview

The Greek study was designed to test some of the assumptions of recent contingency theory of organizations in the Greek setting. Our basic research problem was success of the Greek industrial firm. We defined success in terms of a systems-effectiveness model, measuring the degree to which a firm could realize its wider goals (material

and non-material) as well as meet its functional requirement as a system. The basic research question which we attempted to answer was: *what accounts for the fact that some Greek industrial firms are more successful than other firms?*

In order to answer the research question, a general survey of manufacturing firms in two industrial zones in Greece (Attica and Boeotia)<sup>2</sup> was conducted. These two zones contained 39% of the industrial firms in Greece and employed 53.6% of the total active population. An attempt was also made to grasp the overall picture of the recently expanding and modernizing dynamic industrial sector in the above two zones. The firms were viewed as complex social systems within the larger socio-economic and cultural milieu. Technological, environmental, structural and social dimensions were examined as they related to organizational success.

### 2. Methodology used

A stratified random sample of the firms in the area was used, including 145 manufacturing firms of different technological complexity and size of labor force. 131 variables were combined into the data pool which was used for our analysis. These variables were created from information collected through structured interviews and secondary sources.

Zero-order correlations were calculated between each independent variable and the dependent variable. Following this, a factor analysis was performed on the variables. For technical as well as for theoretical reasons, the 131 independent variables were divided into four theoretically meaningful clusters: technical variables, organization/management variables, labor characteristics, and social variables. A separate factor analysis was performed for the above four clusters. On the basis of the factor analysis, a number of scales were constructed to represent the basic dimensions uncovered. The scales as well as the single items not combined into scales were subsequently used as independent predictors in a multiple regression analysis on our dependent variable. Following multiple regression analysis, we proceeded to path model-testing for the definition of the best possible conceptual model, consistent with our original theoretical hypotheses and supported by our data.

### 3. The Dependent Variable

In evaluating success, we used a system model, which tries to coordinate goal activities as well as

1. National Statistical Service of Greece: Statistical Yearbooks of Greece.

2. Where the metropolitan area of Athens is now expanding.

non-goal activities. We specifically used the *systems-effectiveness model*, which emphasizes the effectiveness of the organization, as measured by the degree to which it can realize its wider goals (material and non-material) as well as meet the functional requirements which will permit the organization to operate effectively as a system.

Measurement of success involved two major types of variables: those constructed from the knowledge of quantitative data, and those based upon personal knowledge and opinions or qualitative data. Thus, success became itself a scale of twenty variables (Appendix A: Measurement of Organizational Success). Problems of validity and reliability were of major concern to the researcher and have been seriously considered.

#### 4. Theoretical Basis

Our theoretical perspective attempted to be interdisciplinary, combining both the sociological and the managerial approaches to industrial organization. Although we took into consideration classical theory and organizational behavior, we heavily relied on recently developed contingency theory, which provides the latest and most extensive conceptual and methodological approach to industrial organization.

#### 5. Major Findings

The analysis of the Greek data resulted in the confirmation of a contingent systemic model of organization, consistent in basic points with existing contingent models developed in Western industrial settings, although more complex, and especially applicable to the Greek situation. Our Greek model supported complex contingent relationships between technological and environmental factors, size of labor force, internal organizational structure and management, and «Social Accountability.» (Appendix B: Path Model; Appendix C: Correlation Matrix of Variables participating in the Model). Therefore, our findings, while supporting previous contingency theories, further extended them by adding «Social Accountability» as a major predictor of organizational success («Social Accountability» referred to the extent to which a firm was holding itself accountable to its constituencies and expressed «social concern» and responsiveness). Our conceptual model, as developed and operationally defined, provided an adequate explanation of differences in success among Greek industrial firms.

«Social Accountability» was represented in our analysis and our final model by two distinct and powerful factors (which evolved out of the fac-

tor analysis), each including a number of single item indicators:

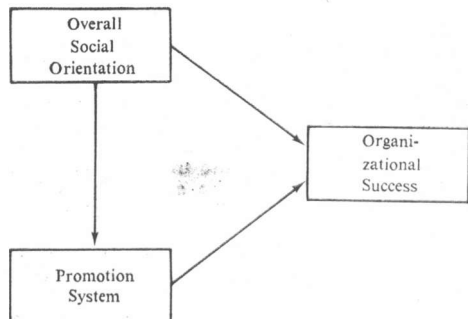
(1) *Overall Social Orientation*, and (2) *Promotion System* (Appendix D: Varimax Orthogonal Rotation; Appendix E: Correlations of Individual Variables with the Factor and the Dependent Variable; Appendix F: Zero-Order Correlations Between Factors and the Dependent Variable). The first factor refers rather to the broader societal level and the response of the firm to the expectations and goals of the larger society. The second factor refers to the individual level, or the concern expressed by the firm for its individual members' expectations and personal goals for career development, occupational growth, and self-actualization as organization members. «Social Accountability» through the above two factors, appeared as a critical dimension, strongly and directly influencing organizational success.

We build on these findings which we try to extend theoretically.

## II. theoretical dilemmas and challenges

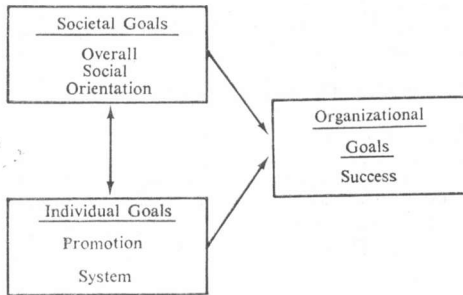
### A. Towards a Psychosocial Contract

Our model suggested a critical area which strongly evolved as a determinant of ultimate organizational success, i.e.



The above critical area refers to three systemic levels (the individual, the organization and society), represented in the Greek model by three corresponding factors («Promotion System,» «Organizational Success» and «Overall Social Orientation»). Although our path model is simplistic enough and cannot provide us with feedback effects, recursiveness and linearity, it nevertheless indicates the

importance of the «Social Accountability,» at different levels, for organizational success. The limitations of the path model do not permit us to further explore statistically the specific relationships between the three factors in the model. Nevertheless, we expect theoretically more complex relationships between the above three factors or systemic levels of organizational analysis. By using a theoretical approach, we extended our original hypotheses to include the following proposition: *While Success (attainment of organizational goals) is significantly influenced by Overall Social Orientation (consideration of societal goals) and Promotion System (consideration of individual goals), as a factor including itself social considerations, it maintains reciprocal relationships with the two other factors, i.e.*



By analyzing in more detail the three dimensions of the hypothesized scheme and their relation to various levels of goal attainment, by reviewing some of the highlights of theoretical insights into the area of goals, and by trying to define mutual relationships between the above three dimensions, we have come to some tentative assumptions consistent with our theoretical proposition. These are listed below:

1. The above three dimensions constitute three distinct levels of analysis: the individual, the organization, and society.
2. Each of the three dimensions is systemic; i.e. a subsystem (the individual), a system (the organization), and a larger system (society).
3. The «social» element (whether defined in a Marxian sense as social relationships involved in production, or in a Weberian sense as being «conscious» of the other), is involved in all the three dimensions discussed.
4. By the very fact that each dimension is a system by itself and the «social» element is involved in each of them, a mutual interaction, inter-

dependence and influence between the three systems can logically be assumed. Speaking in systems terms, the three systems receive inputs which contribute to their process of maintenance, growth, and survival. Each system constitutes an input for the other two systems.

5. Interdependencies and mutual exchange between the three systems are expressed in some concrete and important relationships between the individual, the organization and society (Zannetos, 1963); i.e.

a. The individual, motivated by self-interest, purpose in life, economic justice and social/ethical considerations contributes to the shaping of the goals of a democratic society. Through interaction, a consensus is reached as to ethical standards, ideals and modes of behavior in order to avoid the otherwise conflict between individuals and groups in pursuing their individual goals; public consensus and goals are fed back into the individual and the organization to affect their behavior for the next cycle of interaction.

b. The individual, in his dual role of employee and consumer, influences the organization in two ways: as an employee, he participates in the organizational life, production and decision-making; as a consumer, he inputs a value to the final product and services of the organization. As an employee, he carries in himself notions of social responsibility and by interacting with others within the organization helps form a consensus (as he does when he interacts within society).

c. The organization influences both the individual and society (imposes contractual commitment to the organizational members for the attainment of particular goals, and attempts to influence individual tastes and economic habits through research, innovation and advertising, and the society through social services and lobbying).

d. Society, in turn, influences the individual and the organization: the long socialization process prepares individuals to assume certain roles and defines individual expectations from such roles. Individual attitudes toward work, needs for self-actualization, motives and expected types of rewards are to a large extent socially and culturally shaped. On the other hand, society influences the organization in defining its goals, in developing standards of behavior, in developing structural and managerial forms, in developing social consciousness and becoming socially responsible. Considerations of profit-maximization, «social accountability,» market interaction and criteria of success are to a large extent socially defined. Governmental regulations and socio-economic conditions also regulate to a large extent business behavior.

The above complex pattern of interactions and

mutual exchanges between the individual, the organization, and society, where interdependence serves as a mediator for solving conflict between individual goals, organizational goals and societal goals, supports the notion of an implied 3-dimensional psychosocial contract. Such a contract, involves a whole spectrum of rights, privileges, expectations and obligations between the individual, the organization and society, which even though they are not officially written in a formal agreement, they nevertheless operate powerfully as determinants of economic behavior. Individual-organization-society must be viewed as a cycle of three interpenetrating and overlapping systems, one being an input to the other.

This new form of contract is twofold, a combination of the psychological and the social contract, in the light of the systems theory which supports interrelatedness and interdependencies among the various social systems. The «psychological contract» has been supported by recent organization theory (Schein, 1965; Huse & Bowditch, 1973; Kolb, Rubin & McIntyre, 1974), and suggests an implied agreement between an organization and its individual members which defines a variety of mutual expectations within and beyond the strict area of work (Appendix Hi: The Psychological Contract). On the other hand, the notion of a «social contract» has been promoted by traditional political philosophy as the basis of rights and duties in the state (society) (Hobbes, 1586-1679; Locke, 1632-1704; Rousseau, 1712-1778); it supports that the «state of society» is characterized by a «contract,» that the participants in the contract have the obligation to keep their «promise» as they have consented to the contract's terms with society, and that it is upon the consent of the individuals that society exists and is legitimized. Also, that society should be judged by the recognition and protection it provides for «inalienable» individual rights (Appendix Hii: The Social Contract). All contractual theory in the past had a pragmatic character as it was set by some historical activities which it was intended to justify. The idea of a social contract is slowly reappearing in organization literature to refer to the relationship between business and society, as business functions by public consent, its main purpose being to serve constructively the needs of society (C.E.D. 1971, p.11; Gray, 1971; Steiner, 1973; Coppock & Dierkes, 1974).

The notion of a psychosocial contract is based on the assumption that business behavior is justifiable when it serves not simply the individual or a group, but the goals of society of which it constitutes a component part. By its very definition, the industrial organization is considered as a social unit. According to Parsons (1960, p. 17), «Organizations are social units (or human groups) deliberately constructed

and reconstructed to seek specific goals.» Modern society and civilization depend on organizations as the «most rational and efficient form of social grouping known» (Etzioni, 1964, p.1). The industrial firm, as an organization, is a powerful social tool for coordinating human action, combining human and material resources, bringing together leaders, experts, workers, machines and raw materials. All this permits an organization to serve the various needs of society and its citizens more efficiently. Speaking in systems terms, society, or the larger social structure, expects inputs from industrial organizations, which contribute to its processes of maintenance, growth, and survival as a system. Society is concerned in business action, since the latter employs human resources as well as material resources. Society is concerned with the way that these human resources are utilized by the firm, as much as it is concerned with the final product of the process of production. The standard of living of a certain society, which is one of its major goals, is increased by the outputs of the industrial organization as well as by the conditions employed in producing the output (Zannetos, 1963, p.7). Both, the output of the firm and the conditions employed in producing it are related to the notion of social consciousness and responsibility and to the way society manifests her approval or disapproval.

#### *B. «Social Consciousness»: A Framework for the Psychosocial Contract*

The implications of economic and business behavior for society have been the subject of continuous investigation and study since industrial organizations started growing in size and influence in Western society. Social scientists and managerial experts have searched for a rationale to support business behavior and for a justification of the very existence and role of industrial organizations in modern society. Classical micro-economic theory viewed the firm within its narrow confines as a system operating under a specific control system. Profit maximization was the legitimate objective of business behavior dating back to the days when the entrepreneur and the firm were synonymous. According to Adam Smith's classical thesis, the individual, as a rational economic man, in pursuing his personal goals is at the same time serving the objectives of society, while the invisible hand guarantees an identity of interests of both the entrepreneur and society. But as markets expanded and large scale production was introduced, imperfections of the market price mechanism made social scientists and administrators realize various mutual interdependencies and the need for consciously influencing markets in order to eliminate risk and uncertainty.



The corporate form of business organization and group decision-making raised some serious questions concerning the relationship between the objectives of the individual, the firm and society (Zannetos, 1963). Such questions as motivation of individuals, conflict among groups, coordination, relationship to the owners, have seriously preoccupied the students of organization. Several theories developed by sociologists, psychologists and administrators, which attempted to deal with shortcomings of the rational economic model, have gradually come to question the profit-motive as the only criterion of efficiency, while other social considerations and parameters have gained ground as criteria of organizational effectiveness.

The notion of a psychosocial contract in business should be viewed within the framework of a new set of rising expectations and attitudes of people that is now evolving, and a growing social consciousness among scientists, managers, students and laymen, of the human interdependence that is involved in economic behavior, as this takes place within the context of society. Such a social consciousness is expressed in the recently developing concepts of responsibility and social accountability, which have become the theoretical basis of much investigation and experimentation. Industrial organizations are viewed as social systems functioning in the context of the larger society of which they are part, and interacting with a vast complex of individuals, institutions and other social units. The term «social consciousness» refers to the awareness among many sectors of the economic order (workers, businessmen, consumers, scientists, stockholders, the public, accountants) of their interdependence through a number of structures (such as the industrial firm) and processes (such as competition, cooperation and conflict). The concept of social consciousness is related to the concept of «social responsibility» which refers to a «sense of obligation, rightness and duty which develops among people» (Bruyn, 1975). Such a sense of responsibility has a subjective dimension, i.e. *social sensitivity*, which refers to a feeling of importance among people as a group, to respond to other people in the system with a sense of fairness and equity; also, it has an objective dimension, i.e. *social accountability* which refers to the structures which require people to respond fairly to one another within an interdependent system (that is, the objective way in which people are organized to respond, to correct or to justify their actions within the corporate system—the development of auditing systems and juridical systems within the corporations as examples of the development of social responsibility within the business corporation). The business corporation is being conceived as a social entity as well as an

economic entity, its social and economic aspects being interconnected and dialectically involved.

As Western society is moving towards a greater economic and social performance, expectations of people and society are also rising at a fast pace. Changes in attitudes seem to occur among the various segments of society, with a greater emphasis on human values, individual rights, and qualitative aspects of life (CED, 1971, p.13). A broad consensus is now being developing among people in society in support of broad social goals, especially since the productivity of the economic system makes now these goals possible. Also, we can witness a rising criticism against major institutions, including business, viewed as obstacles to social progress, which slowly introduce changes in public expectations of business (Chamber of Commerce of the United States, 1973, pp. 12-13). It seems that in all the industrialized nations of the world many of the issues and conditions of a new psychosocial contract are now under consideration and writing. Of special concern are the social responsibilities of business, which are a major part of the new contract, as a result of the new attitudes towards business, which will serve as a guideline for companies to develop policies and take specific actions in the light of a developing notion of a psychosocial contract.

There are indications of a large movement toward a wider public accountability of economic decisions affecting the public interest, a public interest law for corporations, and a gradual «constitutionalizing» of the corporation in the public interest (Bruyn, 1975). Also, social awareness among businessmen and social scientists promote the idea of developing a model of social measurement (together with economic measurement) of corporate performance, so as to include «social» as well as profit goals in their agenda. Current literature has much to say in relation to social awareness and corporate social responsibility, as well as what has been called a «social audit» for the evaluation of the social performance of firms. A number of distinguished scholars have suggested that the social element should be included in a new type of economic rationality which actually serves the goals of society.<sup>1</sup> The theory of «corporate

1. Among them are: Schumpeter, 1942; Allen, 1952; Berle, 1959; Davenport et al, 1951; Lilienthal, 1952; Galbraith, 1956; Parsons, 1949; Drucker, 1954; Among more recent scholars who deal extensively with the new type of «corporate social responsibilities» are Bauer, 1972; Bauer and Fenn, 1972, 1973; Walton, 1967, 1970; Walton and Eels, 1967; Withers, 1972; Gordon et al, 1971; Heine, 1968; Steiner, 1972; Nader and Green, 1973; Bruyn, 1973, 1975, 1975; Mckie, 1974; Corson and Steiner, 1974; Gothie, 1974; Dierkes and Bauer, 1973; Baumol, 1970; Ackerman, 1973, 1974; Anshen, 1974; Byars and Mescon, 1975; Preston and Post, 1975; Banks, 1975; Davis and Blomstrom, 1975; and others.



social responsibility» and much experimentation in social accounting, try to bridge the gap between individual goals, organizational goals and societal goals, or between individuals, industrial organization and society, hoping thereby to solve many of the human problems of modern organizational society.

It should be mentioned that corporate research has been in the direction of increasing social consciousness about the corporate system, as the focus of study shifted gradually from the individual as a physical unit in an economic context, to a broader view of the individual as an interdependent part of a corporate system, and to a wider social framework for interpreting corporate behavior at the macro-system of the economy (Appendix I: A Social Theory of the Corporation). The history of corporate research shows an increasing breadth of consciousness as well as increasing depth and sensitivity, introducing a feeling of human identity and sensitivity (Bruyn, 1975). In the last 150 years the corporation changed from being considered as mainly a legal-economic entity to being conceived increasingly as a social entity, with a social significance as a system at the national and international level. Social consciousness and responsibility show signs of increasing at the national level, and new structures of accountability will apparently be formed, as Durkheim's «conscience collective» will become the moral framework for a national consciousness. New models will apparently be developed which will incorporate social consciousness at the national level, beyond the old corporate models based on hierarchy and competition which are not longer workable (Bruyn, 1975). As the Mayo studies initiated a shift from «economic man» to «social man» in the corporation, new studies are now bringing entire new constituencies into the conceptual framework of the corporation. Various measures, being part of the social concern, promote social consciousness and social responsibility in the area of business behavior.

It is within the above theoretical framework and a new pragmatism that the psychosocial contract can be conceptualized. Contractual theory in the past was related to a revolutionary change of society, social forms and ideologies. At present, a new form of contract is related to a new pragmatism and historical shift, and the emergence of a new social creed which justifies the movements of corporate social responsibility and social auditing.

The psychosocial contract, as a concept, can incorporate the whole pattern of responsibilities, obligations, expectations, rights and privileges between the individual, the organization and society, which, although not officially written in a formal agreement nevertheless operate powerfully as determinants of

behavior. A consideration of the shared consensus as to the legitimacy of authority of the organization would also involve society, in a larger plan. On the other hand, the contract would involve the perception and the possibility of the individual to *influence* the organization and a democratic society, his acceptance of the system (organization) and the larger system (society), and his conscious involvement as a responsible, committed and moral being in the solution of organizational and societal problems. Also, the contract would refer to the organization and its possibility to get consciously involved as a responsible, committed and moral entity to some of the major problems faced by modern organizational society and human beings. Such a psychosocial contract would also refer to the expectations that society has to meet for both, the organization and the organization members, for fairness, just treatment, security, growth, self-actualization, high standard of living and democratic ideals.

The nature and specific impact of a 3-dimensional psychosocial contract between the individual, the organization and society, are not easy to define theoretically. We need to specify and test concrete and specific patterns of interaction, mutual expectations and motivation, types of authority, kind and degree of involvement, etc. All of these are areas which need further elaboration, study and operational definition if such a 3-dimensional psychosocial contract is to acquire importance for further conceptual sophistication in organization theory and social policy-making.

### III. implications of the psychosocial contract for Greek industry

Now we can ask ourselves: What relevance and what implications does the psychosocial contract have for Greek industry? As Perrow states (1970, p. VII), *one test of good theory is that it have practical implications.*

The concept of a workable psychosocial contract has been suggested by the theoretical model, developed out of the analysis of the Greek data, which adequately explained success of industrial firms in the Greek economy. The psychosocial contract, as discussed in the present paper, has been seen in the perspective of the Greek environment, although we should recognize that there are international implications of the subject.

The psychosocial contract leads to a discussion of the social responsibilities of business enterprises in the Greek society. It also contributes to a clearer view of the interdependencies involved in society in general, the increasing responsibilities of business as part of the whole system, and the need to respond

to the changing expectations of the public. The concept here refers to the social as well as to the economic aspects of responsibilities of Greek firms, since organizational success (our main dependent variable) included a great variety of material and non-material organizational goals (Appendix A: Measurement of Organizational Success). We should not forget that business serves the individual and society mainly by carrying out its basic functions of producing goods and services and generating wealth to improve the nation's standard of living. Thus, the concept of the psychosocial contract serves as a rationale for legitimizing business behavior.

This is a fresh and enlightened point of view about the role of Greek business as an important tool of economic as well as social progress, setting forth some new ideas about approaches and policies which seem necessary in achieving a balanced economic and social development. Through the concept of the psychosocial contract, the Greek business firm appears as a social entity, its social and economic aspects being interconnected and dialectically involved. Social service and profit appear as the legitimate objectives of business behavior in Greece. Profit does not appear as the only criterion of effectiveness; other social considerations and parameters are gaining ground as criteria of organizational effectiveness for the Greek firm.

The psychosocial contract suggests some structural relationships and patterns of organizational behavior specific to the Greek setting, providing a framework for interpreting corporate behavior. It gives new theoretical insights into the interdependencies, the complex pattern of interactions and the mutual exchange involved in business behavior, expressed in some concrete and important relationships between the individual, the organization and society. It bridges the gap between individual goals, organizational goals and societal goals, hoping to face many human problems of a modern organizational society that is now evolving. Thus, it provides a model applicable in the Greek situation, where organizational, individual and societal goals seem interdependent and overlapping. In an interdependent world, the industrial firm takes a social significance, as a system, at the national and international level.

The concept provides also a theoretical basis for the understanding and the definition of «Social Accountability» of the Greek firm. «Social Accountability» was represented in our analysis by two factors, namely, «Overall Social Orientation» and «Promotion System» (see Appendices B through F) and appeared in our conceptual model as a critical dimension, strongly and directly influencing organizational success. Specifically, we have found the more successful firms to be more socially conscious, responsive

and accountable. These firms had the more workable psychosocial contracts. Society seemed to reward the firms which displayed social concern and responsiveness to the wider social and human needs. But what is «Social Accountability» in specific terms, how it can be transformed into action, what categories can there be included, these are explained by the concept of the psychosocial contract. In more applied terms, «Social Accountability» refers to the manner in which a firm, as a part of society, assumes responsibility for the special needs of its various constituencies, which have valid claims on the firm, as well as the needs of the category of «the public interest.» Thus, the Greek firm may hold itself accountable to a number of its constituencies (employees, workers, owners, customers, investors, local and national communities and/or other relevant groups) for its social performance.

Finally, the psychosocial contract implies an awareness of the various sectors of the economic order in Greece of their interdependence through the structure of the industrial firm and a number of processes associated with it. It also implies some rising expectations of people and changes in attitudes among the segments of society, with a greater emphasis on human values and a feeling of human identity and sensitivity. We can see signs of an arising «conscience collective» as a moral framework for a national consciousness. Thus, the model provided by the psychosocial contract incorporates social consciousness at the individual, the organizational and the national levels, beyond the old corporate models which were based on hierarchy and competition. Entire constituencies are brought into the conceptual framework of the Greek industrial firm.

How all these relate to the larger picture of the Greek society and the Greek industry?

Greek society, as mentioned before, is in a time of rapid changes in the economic sphere, as well as in societal and individual values. Industry, as a basic economic institution of society could not be insensitive to such changes; it tries to cope with them and adapt to the complexities of a dynamic and yet unstable environment. The consequences of the success of firms to adapt, have been illustrated in our research.

It should be mentioned that Greek industry has faced a sudden climax in industrialization, which other developed Western countries have reached progressively passing through various stages of industrial development and gradual changes in technology, institutions and values. Since Greece did not experience the various stages of industrial development and gradual changes, some of the traditional pre-industrial relationships and values continue to exist and have not given completely their place to new

institutional forms, ideologies and values. Social institutions still reflect to a large extent the values, needs and cultural arrangements of a pre-industrial society and must operate within established and culturally defined expectations. Despite rapid progress, Greek firms still face severe structural and organizational weaknesses. *Greek enterprises are generally small* (according to the 1969 national census of the industry and handicraft sector, enterprises employing less than 5 persons accounted for 41% of total industrial employment and those employing less than 20 persons for nearly two thirds). Another feature is *the predominance of family owned and family run enterprises*. Reluctance of the owners to accept decentralization of decision-making power hampers the development of small enterprises into efficient large scale units. Finally, the *shortage of competent managers* to plan and run industrial enterprises and of *entrepreneurial initiative* are probably among the most serious obstacles to faster industrial progress in Greece (Pepeleas et al., 1960; Coutsoumaris, 1963, 1970; Alexander, 1964; Ellis et al., 1964; Stratoudakis, 1967).

Yet, in the post-war period, wider strata of the population have been exposed to Western culture and direct communication with industrially developed Western communities, which has facilitated the inflow of foreign ideas of organization and of forms of behavior. In fact, the developmental facts and the need to face problems of development and change have given lately rise to new organizational forms and modern conceptions of industrial activity and management (Nicolau, 1974, pp. 32-48). An increasing awareness developed among business administrators, social scientists and the public for new insights, inputs and sophisticated methods in designing and managing industrial organization. Also, new trends in management and the social sciences began to emerge.

Greece's association with the European Economic Community in the early sixties, which provided for a gradual adjustment of the Greek tariff schedule to that of the EEC, required new orientations (improvement of competitive strength of domestic industry, increase of the export orientation, etc.).

Lack of sufficient research in the field, does not permit us to further elaborate the individual-organization-society relationship within the Greek context. For the same reason we cannot dig deeper into the nature and the roots of the expressed social accountability of Greek successful firms: we cannot state if and to what extent this is a conscious attempt to express concern for the rising expectations of society and the emerging needs of the various constituencies, along the lines of Western firms, or if this is a necessity to cope with some of the problems created by an

uncertain and unstable environment, or if it is an expression of traditional humane values, attitudes and feelings of responsibility of managers-owners performing the role of a father figure. It may be true that to a large extent the technostucture of the Greek firm is responsible and responsive to individuals within the system as a result of still existing family ties, traditional values and value-minded managers-owners. Yet, whatever the present motives behind the expressed accountable behavior of Greek firms may be, as Greece is moving toward a higher stage of economic, technological and social development, somewhere along the line, the need will appear for a well defined corporate management response to the rising social emphases, values, expectations, and human associations.

The future course of industrial organization in Greece is expected to be closely related to the dynamic process of economic development and change of the Greek society. Greece within the next 15 years will be included among the industrially developed countries. In many ways, Greece is expected to follow the Western patterns of modernization (adoption of a partial convergence pattern). Change at the national level should be seen from a new perspective and within the international context to which Greece in the future will be economically and structurally attached.

The Greek manager should be prepared to rationally adapt to the increasing complexities of the Greek corporate world and the changing nature of a dynamic production system. He should be aware of the complex interaction patterns between various organizational and social systems, at the national and the international levels, be ready to assume an integrative role, and through the necessary strategy respond consciously to the rising expectations and needs of society and employees, which will make up his part of the psychosocial contract.

The psychosocial contract in the Greek industry should be seen as a dynamic process, changing together with the growing consensus in society about arising social issues and national priorities, along with the process of industrialization. Probably the day is not too far that Greek industry will be publicly called to undertake even major responsibilities for resolving new human, social and environmental problems that are likely to occur, and work out a system of social accounting. We should not ignore that a redefinition of some of the main concepts and institutional arrangements is now taking place in the Greek society by various socially conscious and concerned individuals (industrialists, trade unions, labor associations, students, intellectuals, consumers, stockholders and other social groups) as well as a reevaluation of the existing criteria of successful business performance.

Our goal, in trying to define and operationalize a meaningful and workable psychosocial contract for the Greek industry, is to provide a potentially useful guide to practicing managers and researchers for finding their appropriate role in the days to come.

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APPENDIX A: Measurement of Organizational Success

SCALE ITEMS

A. Variables based on quantitative data (measured in terms of Drachmas or percentages):

1. Profits made
2. Sales
3. Reduction in unit and total costs
4. Major innovations (investments in new machinery, new product development)
5. Capital invested in expansion programs (buildings, new plants, etc.)
6. History and rate of development in personnel
7. Fluctuations of the firm's shares in the Stock Exchange (if such exist)
8. New markets acquired (exports)
9. Dependability (punctuality of the firm towards its financial obligations to other organizations, banks, individual creditors, etc., as measured by the number of bills of exchange-drafts not paid and protested).

B. Variables based on qualitative data (measured in judgmental terms):

1. Product quality.
2. Decisions taken about future production policy
3. Relationships between the firm and outside organizations (participation in other firms, committees, etc.).
4. Local standing of the firm
5. Reputation as an employer (both in the community and the industry)
6. Attitude of local authorities and competitors towards the firm
7. Contribution to the local community
8. Contribution to the various national and social programs
9. Labor relations (strikes, disputes, arbitration, etc.)
10. Customer Relations
11. General Administration policy towards shareholders (dividends paid, etc.)

APPENDIX B: Path Model (See next page)

APPENDIX C: Correlation Matrix of Variables and Scales Participating in the Path Model

	1	2	3	4	5	6	7	8	9
Var. 1 Depend. on Local Mrkt f/Suppl.	1.00								
Var. 2 Scale: TECHNOLOGY	-.19	1.00							
Var. 3 Scale: DEP. ON LOCAL MRKT F/SALES	-.04	.32	1.00						
Var. 4 Scale: TECHNICAL CHANGE	-.14	.34	.17	1.00					
Var. 5 Scale: SIZE OF LABOR FORCE	-.05	-.13	-.01	-.10	1.00				
Var. 6 Scale: ORG'L COMPLEX. & MGT	-.01	.05	.10	.13	.43	1.00			
Var. 7 Scale: OVERALL SOCIAL ORIENT.	.00	-.01	.11	.08	.53	.75	1.00		
Var. 8 Scale: PROMOTION SYSTEM	-.15	.04	.14	.01	.03	.35	.35	1.00	
Var. 9 Scale: ORGANIZ'L SUCCESS	.12	-.07	.01	.09	.23	.30	.37	.30	1.00

APPENDIX D: Varimax Orthogonal Rotation

«SOCIAL ACCOUNTABILITY»

Variable Name	F.1 Over'l Social Orient.	F.2 Local Union Involv.	F.3 Promo- tion System	F.4 Dep. on Local Envir.	F.5 Worker Partic. in Ctl	F.6 Labor Sta- bility
Financial Aid	-.72	.09	.11	-.11	.05	-.12
Human Relations Programs	-.71	-.07	-.07	-.12	.01	-.13
Industrial Training Prov'd	-.66	-.08	.31	.03	.28	.08
Nature of Promotion	-.64	.40	.16	.17	.30	-.06
Is There a Publ. Rel. Dep't?	-.63	.06	-.08	.09	.14	-.02
Hiring Methods f/Employees	-.63	.00	.25	.13	.07	-.05
Medical Care	-.60	.07	.10	-.14	.22	.06
Public Rel.w/Local Commun'y	-.59	-.17	.28	-.22	.06	-.16
Training Prgrms w/the Co.	-.58	-.03	.04	-.07	.27	.03
Labor Relations	-.55	-.13	.00	-.20	.10	.25
Local Labor Union	-.46	.22	-.11	-.10	-.44	-.14
Advancement Policy	-.44	.27	-.04	.05	.09	-.01
Personal Gifts	-.39	-.32	.04	-.11	-.03	-.13
Children's Care	-.39	.13	.29	.17	-.07	-.34
Role of Local Labor Union	-.05	.97	.15	.00	-.05	-.16
Productivity Allowance	-.12	.50	.24	-.21	.07	-.24
Prom. System f/Workers	-.12	.01	.88	.01	-.06	.07
Prom. System f/Employees	-.27	.06	.81	-.10	.06	-.07
Daily Transportation	-.19	-.09	.05	-.75	.15	-.06
Dep. on Lcl Mrkt f/Sales	-.02	-.13	.03	.67	-.01	-.14
Dep. on Lcl Mrkt f/Labor	.07	-.03	.14	-.42	-.36	-.23
Profit Sharing	-.18	.13	.09	-.11	.53	-.08
Distribution of Shares	-.29	.06	-.12	-.17	.57	-.06
Annual Labor Turnover	-.04	.05	-.12	.06	.08	-.75
Attendance Allowance	-.08	.07	.33	-.26	.20	-.44
Hiring Methods f/Workers	-.33	-.34	.10	.06	.25	.41





APPENDIX E: Correlations of Individual Variables with the Factor and the Dependent Variable

"SOCIAL ACCOUNTABILITY"

FACTOR	Variable Name	Correlation with the Factor	Correlation with the DV (Success)
F.1	Financial Aid	-.72	.28
Overall Social Orientation	Human Relations Programs	-.71	.24
	Industrial Training Provided	-.66	.29
	Nature of Promotion (Employees)	-.64	.36
	Is There a Pub. Rel. Dep't?	-.63	.27
	Hiring Methods (Employees)	-.63	.23
	Medical Care	-.60	.28
	Pub. Rel. with Community	-.59	.25
	Training Prgms within Co.	-.58	.13
	Labor Relations	-.55	.11
	Local Labor Union	-.46	.13
	Advancement Policy	-.44	.23
	Personal Gifts	-.39	.14
	Children's Care	-.39	.10
	F.2	Role of Local Labor Union	.97
Local Union Involvement	Productivity Allowance	.50	.02
F.3	Promotion System (Workers)	.88	.26
Promotion System	Promotion System (Employees)	.81	.31
F.4	Daily Transportation	-.75	.09
Dependence on Local Environm.	Dep. on Lcl Mrkt f/Sales	.65	.01
	Dep. on Lcl. Mrkt f/Labor	-.42	-.08
F.5			
Worker Partic. In Capital	Profit Sharing	.53	.05
	Distribution of Shares	.51	.11
F.6			
Labor Stability	Annual Labor Turnover	-.75	-.08
	Attendance Allowance	-.44	.03
	Hiring Methods (Workers)	.41	.13

APPENDIX F: Zero Order Correlations Between Factors and the Dependent Variable

"SOCIAL ACCOUNTABILITY"

Independent Variables	D.V. Success		
	Large Firms N=117	Small Firms N=28	All Firms N=145
Scale : OVERALL SOCIAL ORIENTATION	.35	.38	.37
Scale : LOCAL UNION INVOLVEMENT	.05	-.19	.04
Scale : PROMOTION SYSTEM	.32	.14	.30
Scale : DEPENDENCE ON LOCAL ENVIRON'T	-.02	.03	.01
Scale : WORKER PARTICIPATION IN CAPITAL	.09	.16	.10
Scale : LABOR STABILITY	.00	.12	.04

APPENDIX G: Measurement of Independent Variables, Factor Loadings and Correlations with Organizational Success

Independent Variables	Rotated Factor Loadings	Correlation with Org'l Success	Independent Variables	Rotated Factor Loadings	Correlation with Org'l Success
I. <i>Technology</i>	—	-.07	VI. <i>Organizational Complexity &amp; Management</i>	—	.30
A. How Product is Manufactured simple units/stock	-.91	-.01	A. Who is Responsible for Purchases The Gen./Mgr/a Special Department	-.69	.31
B. Standardization of Product non-standardized/standardized	-.88	.08	B. Is There a Research Manager?	-.65	.15
C. Changes in Design no changes/enough changes & important	.74	.20	C. Number of Authority Levels (code number)	-.61	.20
D. Production Technology unit-small batch/complex system	-.49	-.07	D. Who Does Cost Accounting none (no cost account'g)/a Special Dept.	-.61	.22
II. <i>Dependence on Local Market for Sales</i>	—	.01	E. Organization Chart Available? no/there is a recent and accurate one	-.59	.22
A. Daily Transportation no/yes, for everybody	-.75	.09	F. A Programming/Production Control Dept? no/yes	-.59	.22
B. Dependence on Local Market for Sales (code percentage)	.65	.01	G. Separation of Ownership & Management no separation/full separation	-.56	.32
C. Dependence on Local Market for Labor (code percentage)	-.42	-.08	H. Style of Management organic/mechanistic	-.56	.32
III. <i>Dependence on Local Market for Supplies (item)</i>	—	.12	I. Is There a Marketing Manager? no (no need for the product)/yes, a special Dept	-.55	.01
IV. <i>Technical Change</i>	—	.09	J. Economic Coalitions autonomous, self-contained firm/parent	-.54	.17
A. Changes in Method no changes/enough changes & important	-.74	.11	K. Who is Responsible for Maintenance? none/a special Dept	-.50	.08
B. Detailed Method of Manufacturing by assembling/by a mixed method	-.62	.03	L. To Whom Resp. for Purch. refers none/to the Board	.48	-.22
V. <i>Size of labor force</i>	—		M. Small versus Large Firms below 100 employees/above 100 employees	-.44	.11
A. Total Number Men Daily Wages	-.97	.15	VII. <i>Overall Social Orientation</i>	—	.37
B. Total Number Men Employed	-.94	.15	A. Financial Aid (loans) no/occasionally quite important	-.72	.28
C. Men Employed Directly in Production	-.94	.19	B. Human Relations Programs none/a great number; a special Dept	-.71	.24
D. Men Production Workers	-.93	.17	C. Industrial Training Provided none/ a combination of technical on-the-job, seminars, study abroad	-.66	.29
E. Foremen (Men and Women)	-.93	.15	D. Nature of Promotion (Employees) economic promotion only/ both, economic and hierarchical. There are organic positions.	-.64	.36
F. Men Foremen	-.92	.16	E. Is There a Public Relations Dept? no/yes	-.63	.27
G. Number of Non-Production Jobs (Men and Women)	-.90	.15	F. Hiring Methods (Employees) personal criteria/formal selection procedure	-.63	.27
H. Total Number Daily Waged (Men and Women)	-.90	.18	G. Medical Care (Beyond the National Social Security Plan) none/both visiting doctor available and coverage by an Insur. Co. (paid by Co.).	-.60	.28
I. Men in Non-Production Jobs	-.89	.13			
J. Size of Labor Force 1969	-.88	.21			
K. Size of Labor Force 1973	-.88	.22			
L. Engaged Directly in Production (Men and Women)	-.85	.19			
M. Number of Production Workers (Men and Women)	-.84	.19			
N. Men Clerical Employees	-.70	.28			
O. Men Administrative Employees	-.68	.29			
P. Number of Clerical Employees (Men and Women)	-.66	.29			
Q. Total Number Men Salaried	-.66	.29			
R. Administrative Employees (Men and Women)	-.65	.30			
S. Total Number Salaried (Men and Women)	-.64	.30			

APPENDIX G (continued)

Independend Variables	Rotated Factor Loadings	Correlation with Org'l Success
H. Public Relations with the Community and Society none besides the required by law/ very good in a broader sense (big donations, memberships, community planning, support of a School or hospital, etc.)	-.59	.25
I. Training Programs within the Company none/ a broad and organized program of instruction	-.58	.13
J. Labor Relations not completely satisfactory/extremely satisfactory	-.55	.11
K. Local Labor Union or other Workers' Organiz. no/yes, plays an active role	-.46	.13

Independend Variables	Rotated Factor Loadings	Correlation with Org'l Success
L. Advancement Policy in Exec. Positions exclusively from without/exclusively from within	-.44	.23
M. Personal Gifts in case of need (mainly money) no/occasionally quite important	-.39	.14
N. Children's Care no/yes	-.39	.10
VIII. Promotion System	—	.30
A. Promotion System (Workers) by personal criteria/by formal selection	.88	.26
B. Promotion System (Employees) by personal criteria/by selection	.81	.31

APPENDIX H(i)

*The Psychological Contract*

The «psychological contract» has been one of the Most discussed themes in organization theory of the sixties and the seventies (Schein, 1965; Huse and Bowditch, 1973; Kolb, Rubin and McIntyre, 1974), and has been almost exclusively the domain of organizational psychologists. The concept suggests an implied agreement between an organization and its individual members which defines a variety of mutual expectations in regard to a whole pattern of rights, privileges and obligations, within and beyond the strict area of work. Such expectations do not appear in a written form in a formal agreement, but they nevertheless operate powerfully as determinants of behavior.

The assertion of a psychological contract derived from studies conducted by Argyris (1960) and Levinson et al. (1962), and is connected to the inducement-contribution model developed by March and Simon (1958, p. 93). The concept relates also to Etzioni's typology for classifying types of organizations based on two variables: the type of authority or power used by the organization and the type of involvement of the organization member (Etzioni, 1961). Schein, building on the above theories, explicitly treats the psychological contract as a psychological concept, involving a pattern of *authority* (on the part of the organization) and *influence* (on the part of the individual) which depends largely on the basis of *consent* as to the legitimacy of authority which can vary from one organization to the other and from one society to the other. Max Weber had referred to three major bases of legitimacy of authority, i.e. tradition, rational-legal organization, and charisma (Max Weber, 1947).

From a systems point of view, the individual as a system receives external and internal influences which affect the quality and the quantity of his (her) work output. Within the larger system, i.e. the organization, the individual constitutes a sub-

system in constant interaction with other subsystems and with the larger system. Also, in the light of theories of motivation, the individual works to satisfy certain inner needs. When he enters the organization, he expects to find the necessary climate which will permit him to satisfy his needs. If the larger system, that is the organization, does not provide the opportunities for the individual to meet his needs, the individual is apt to subordinate the goals of the organization to the satisfaction of his own needs. Thus, the individual interacts with the organization in a two-way process of exchange which may be either beneficial for both parties, or a dissatisfying and frustrating experience for one of the two parties (Huse & Bowditch, 1973, pp. 73-4). Interaction is an exchange involving a mutual obligation and interdependence.

The psychological contract, within the above framework, designates mutual exchange and obligation between the individual and the organization where interdependence serves as a mediating factor for solving conflict between the goals of the employee (subsystem) and those of the organization (larger system). According to Etzioni's typology (Etzioni, 1964 as quoted in Huse & Bowditch, 1973, p. 76, Figure 3.1), industry is characterized by a utilitarian type of organization, since it exercises mainly rational/legal authority and uses economic rewards in exchange for work and membership of individuals. Yet, if the «social» element is involved, the industrial organization combines normative considerations with utilitarian ones, and therefore the type of involvement expected from the organization member is moral as well as calculative. The member of a mixed type of organization, performs his function with a certain moral involvement, attributes moral value to his task, and expects rewards with intrinsic value. According to Schein and Etzioni, the kind of involvement of the organization member is consonant with the kind of authority used by the organization and the kind of rewards provided. If an industrial orga-

APPENDIX H(i) (continued)

nization is based on classical management assumptions, using rational/legal type of authority and emphasizing economic rewards, it should expect a calculative type of involvement from its members. If it expects its members to be morally involved, to get satisfaction out of their task and to be «loyal», the type of psychological contract should be changed from a coercive / utilitarian one to a utilitarian/normative one. The organization members will be more committed to the organization's goals, will value their work, will get more involved and will grow as employees and individuals. This will depend on the attitudes and the philosophy of management and whether it will be willing to change the nature of the psychological contract.

If we accept the premise that human behavior in organizations is a process of social exchange (Homans, 1950) by which the employee attempts to meet his personal inner needs and goals, and if we think in terms of a psychological contract which defines the type of exchange between the individual and the organization for the attainment of mutual goals, we can get a good insight into the dynamics of the individual-organization relationship (which is to a great extent culturally determined). Much depends on the ability of the management to introduce the proper psychological contract, by understanding the individuals within the organization, defining their needs and goals, initiating the socialization process which will permit areas of freedom and creative individualism, and providing the appropriate incentives. Schein assumes that maximum integration is achieved by the organization if the necessary conditions are created to facilitate a balance between organizational goals and individual needs (Schein, 1965, p. 103). The psychological contract seems to be a reality with implications for individual satisfaction and productivity.

We believe that the concept of a psychological contract has a dynamic quality and importance as well as great potential usefulness for sociological analysis and further consideration. Support for its importance comes from a number of sources, mainly findings in behavioral research, and a growing body of research demonstrates its importance (Rosenthal, 1966; Berlew and Hall, 1966; Schein, 1974; Rubin, Kolb, Farris and McIntyre, 1969). Although the views of the notion of a workable and «just» psychological contract deal exclusively with the psychological dynamics involved in the organization-individual interactive process, scholars who dealt with it have recognized the social element of social interaction and the existence of a variety of sociological factors affecting this interactive process (for example, group structure and tasks, organizational goals, environmental background affecting membership, etc.).

Yet, we feel that the views expressed on the psychological contract, although recognizing the social element involved and the systemic nature of the organization-individual relationship, they tend to promote the idea of a closed system and an emphasis upon intraorganizational dynamics. Society, of which the organization is a part, and the various constituencies to which the organization is accountable, do not appear in the picture. Although scholars dealing with the psychological contract refer to the environment, they do not treat explicitly the inputs to the organization and the close ties which relate the organization to its social context. Yet, the very idea and the nature of a contract, whether it be legally stated or psychologically implied, the types of organizational and individual need-structures and systemic goals, the nature of interaction and the set of mutual expectations and obligations are defined by society within which they take place.

We think that the psychological contract would take a new breadth, depth and meaning if it could be extended so as to include society as well in the interactive process. Therefore, while accepting the importance and usefulness of a «just» and

«workable» psychological contract to meet the mutual needs, goals and expectations of the individual and the organization, considered as distinct analytic systems, we should extend the concept so as to include the larger system, taking account of the needs, goals and expectations of society as well.

APPENDIX H(ii)

*The Social Contract: A Reference to an Old Concept*

The idea of a «social contract» as the basis of rights and duties in the state could be traced back, although in an unprecise form, in Plato and Epicurus, in Cicero and the *lex regia* of the Roman law (Laski, 1934, p. 127). As a systematic and coherent notion, the social contract is related to the Reformation and the Counter-Reformation, intending to serve certain purposes and becoming the weapon of religious and political doctrines (Laski, 1934). A contractual theory had a pragmatic character as it was set by some historical activities which it was intended to justify.

History abounds in contracts. In the 17th century, the notion of a contract referred to the idea that people as a body are entitled to certain rights and that power is a trust. When the ruling authority broke the trust, its title to allegiance disappeared. The term «social contract» has been applied by students of politics to the political theories of some of the most influential thinkers of the 17th and 18th centuries: Thomas Hobbes (1586-1679), John Locke (1632-1704) and Jean Jacques Rousseau (1712-1778). The three scholars, called the «contractarians», represent a school or a movement. They supported the idea that society originated in a contract or agreement, explicit or tacit, to which each individual consented, removing himself from the «state of nature», to support a government under laws, of impartially administered justice, and of civic morality (Kendall, 1968, p. 376). According to Locke, people contract to form a civil society; the form it assumes is an «obligation mutually undertaken to secure the definite object of preserving life, liberty and property.» (Laski, 1934, p. 129). The notion of a social contract exercised much influence in the 17th century England during the civil war as a fundamental doctrinal instrument of the rebels, in the American colonies as a basis of many of the constitutions and the development of early American political theory (an idea effectively put forward by Thomas Hooker and Jefferson), in France as the ideological basis of the French revolution (the notion of the «common will» expounded by Rousseau), and in German ideology of the state (by Kant and his disciples).

Although, as a doctrine, the social contract faded away in later history, it fulfilled the important purpose of directing attention to the importance of *consent* in any system of political philosophy (Laski, 1934, pp. 130-1). «Its real value lay in the means it provided between 1572 and 1690 for the emergence of a political creed which justified the constitutional liberalism then slowly emerging.» The sociological concept of *solidarity* which was fashionable in France at the beginning of our century had also a contractual basis.

The contract theorists tried to support that:

(1) The «state of society» is characterized by a «contract» i.e. a transaction that the rational man chooses as a means for exercising his right of self-preservation.

(2) The Participants in the contract have the obligation to keep the «promise» they have made; and

(3) Those born and reared in society after the negotiation

of the contract, must be understood as having «consented» to the contract's terms.

Some of the ideas derived from the School have influenced deeply political thought and political events:

(1) The notion that no society, government, law or rule of «morality» is legitimate unless it rests on the consent of the individuals concerned.

(2) That societies, governments, laws and notions of right and wrong or just and unjust are to be judged by the recognition and protection they provide to the «inalienable» individual rights.

(3) That one of these rights is the right to live under a democratic government, that is, government subject to popular control (control of the majority).

(4) All men are born equal and one major purpose of government should be to promote equality (Kendall, 1968, p. 377).

The three contract theorists are identified with a political event or movement (Hobbes with modern authoritarianism, Locke with constitutional democracy, and Rousseau with the French Revolution and «absolute» majority rule). Yet, each one's definitive work dealing with the *contract* (Hobbes: Le-

viathan; Locke: *The Second Treatise of Civil Government*; and Rousseau: *The Social Contract*) focuses on two basic areas:

(1) *Individual rights*: For all the three thinkers, the individual's right of self-preservation and choosing the means for it, authorizes the individual to enter into the agreement to form a political society and legitimizes the *contract*.

(2) *The problem of consent*: All three writers supported the idea that people can be «bound» only by their own consent. Rousseau sought to legitimize the laws of his society by the continuing consents that the citizens give individually (a) by stipulating in the contract that each citizen coming of age, shall be required to opt for consenting to the existing institutions or for withdrawing from the society, and (b) by requiring that no citizen be formally excluded from the deliberations and votes that produce expressions of the «general will.» Thus, Rousseau brought us very close to two major themes of contemporary theory: the emphasis on *political equality*, and the stress on *active participation by the citizens* in the political process as an indispensable condition for «government by consent.» (Kendall, 1968, pp. 380-1).

APPENDIX I:

*The Development of the Social Theory of the Corporation.* (An adaptation from S. T. Bruyn's scheme in *A Social Theory of the Corporation*, unpublished manuscript, Boston College, 1975).

