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The psychological contract and project management as a core competence of the organization

Raphael de Oliveira Albergaria Lopes\textsuperscript{ab*}, Roberto Sbragia\textsuperscript{b}, Eduardo Linhares Qualharini\textsuperscript{a}

\textsuperscript{a} Núcleo de Pesquisa em Planejamento e Gestão, Escola Politécnica, Universidade Federal do Rio de Janeiro, Avenida Athos da Silveira Ramos, 149, bloco D, sala 207, Rio de Janeiro, CEP: 21941-909 (NPPG/Poli/UFRJ).
\textsuperscript{b} Faculdade de Economia e Administração da Universidade de São Paulo. Av. Prof. Luciano Gualberto, 908 - Butantã, São Paulo - SP, 05508-010 (FEA/USP)

Abstract

This research paper analyses three concepts that are correlated with the phenomenon of developing project management as a core competence of organizations. Project management competence is the individual’s capability to support the organizational stability objective, aligning the mission and vision and optimizing the resource allocation to maintain a sustainable competitive advantage. This study reviews three concepts in relation to their assumptions and possible outputs: project management, competence management and psychological contracts. This discussion paper presents the thesis that these three concepts converge in an approach in which project management is, indeed, a core competence of the organization. To project-management-oriented enterprises, this concept can provide a fundamental research theme for business studies’ evolution. As the results of this reflexive paper, a series of possible research objectives are indicated, such as how the enterprise must establish a psychological contract with subcontracted parties and employees in general, short-term hired professionals. Another concept concerns how companies should design a project management competence governance structure or system, using a framework of the International Project Management Association (IPMA), and how they can apply the ICB normative guide to develop project management as a core competence of Brazilian organizations.

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*Corresponding author. Tel +55 21 98009-0000
E-mail address: albergarias@poli.ufrj.br
1. Introduction

This study’s purpose is to identify and explore people’s consciousness using qualitative and quantitative measures of their perception about their roles within projects, with the aim of identifying their understanding of the impact of the project’s result on the organization’s deliberated objectives.

Furthermore, the use of project management (PM) is a competence that the organization must develop, understanding that PM is the capability to attend to the results that are needed to keep the organization’s enduring existence, aligning the mission and vision and optimizing the resource application to maintain its competitive advantage.

Attracting compromised value-aggregating people to the organization and retaining them are a central issue in the understanding of organizational behaviour in alignment with competence development. One of the approaches to understanding this issue is the psychological contract, particularly within project-oriented enterprises, due to the unique and temporary nature of projects, which demand a better understanding of the knowledge of human resources and their psychological profiles and how they visualize their role in goal achievement both in projects and in the company.

To map and develop PM professional profiles, the International Project Management Association (IPMA) model will be discussed. This model maps competence in clusters to create an organizational competence map, making it possible to develop PM as a core competence of the organization.

2. Project Management

In the past, PM was a technical skill aimed at operationalizing and viably managing projects. Nowadays, PM emphasizes the integration of projects with the organization’s strategic plans, being highly connected to the top management, as the behavioural aspects of management are becoming increasingly important.

In an ever-doubtful macro-economic system, the need for effective management to implement capital projects becomes the key to success in the marketplace. The impact of well-defined and structured project governance may create augmented shareholder value, decreasing the risk exposure and increasing the reliability of investors’ disclosed financial projections. A recent case demonstrating the absence of reliability in a bad governance system is the stock value decrease in the stocks of both Petrobras and the EBX Group (two major O&G Brazilian companies). The stock value plummeted due to project delivery compliance and the consequent exposed lack of financial control.

In this scenario, the PM professional abandons the technical and tool specialist role and adopts a global-context comprehensive role, within the value-system context into which projects are inserted. For PM managers this is especially relevant due to their direct interaction with the organizational strategy.

To operationalize their mission and both strategic goals and strategic objectives, companies define and develop a business plan. With a determined time horizon scope, this planning process is cyclical and consolidates the formal declaration of intentions and objective actions that will be implemented to reach the companies’ strategic business goals. This process encompasses a series of viability studies that evaluate opportunities and alternatives and justify the implementation of necessary actions, generating a project portfolio and demanding articulated project portfolio management.

A company’s programmes and projects will be carried out within a determined time frame, while its portfolio exists. Depending on its size, sector of business and organizational structure, a company can create and manage a handful of portfolios. As an example, a company with different strategic business units (SBUs) has a portfolio
resulting from the integration of its SBUs’ diversified portfolios. The success parameter of a programme or project is associated with the degree of achievement of its goals and the rate of project deliverance. In portfolio management, though, success is more associated with shareholders’ deliberated stock value achievement (Prado, 2009).

The overall view of a PM professional can help the company to utilize the delivered projected result in the most effective way, even if the final delivery of the project is not the intended/deliberated product defined in the strategic plan. Aligning the final results of the project with the strategic goals is a more vital achievement than simply delivering an efficient output without effective value.

Porter (1996) declares that operational efficiency is not a proper competitive advantage in the marketplace, but a mandatory core component of any strategic plan. The essence of strategy is established by choosing which activities must be performed in which way, corroborating Schumpeter’s statement:

After overcoming initial resistance, innovations become a routine activity. The innovative features go, then, to be performed not only by an individual entrepreneur, but become depersonalized and routine functions carried out by a bureaucracy of specialists and managers trained within large production units. Both marketing and the administration are performed by well-established automated processes. Consumers are conditioned to new goods, accepting them as a fait accompli.(Schumpeter, 1957)

Since the beginning of the 2000s, with the scarcity of human resources with proper PM skills, the usefulness of PM as a competitive advantage has increased and Brazilian companies have been searching for tools and solutions to achieve their expected project goals. In the 2010s, with the PMI approach as a dominant line of work, the baseline to build projects by processes is to use the Project Management Body of Knowledge (PMBoK). In this concept, there is a paradigm to be criticized: the competitiveness and forecasting capability of a project lie only in specific applied techniques and knowledge.

There are various models to measure and understand performance outputs. Wernerfelt (1984), in his management by competences, declares that a competitive advantage is a “stream of resources”. Hamel and Prahalad (1990) define it as a set of competences and capabilities. These competences and capabilities are the rare, hard to imitate, expensive and difficult to substitute elements of a particular organization (Barney, 1991, 1997). The concept of resources encompasses not only tangible and financial resources but also intangible resources (Hall, 1992).

Focusing on developing a systemic vision to measure the competences of a PM professional, the IPMA introduces an approach that demands the professional to develop a contextual and cultural view of the project that is being structured. Three competence groups are listed: technical competences, contextual competences and behavioural competences. This study’s approach focuses on the understanding of the organizational context to develop a compromise of the targeted professional with the company for which he works. Using the established psychological contract and mapping his individual competences, it is possible to create a proper environment to develop PM as a core competence of the organization.

3. Psychological contracts

To understand how a competence-oriented structure can be developed to build performance-generating competences, a crucial demand is to maintain a highly motivated result-oriented team. It is commonly understood in the PM sector that the temporary nature of projects, combined with the lack of commitment of the team’s professionals, generates a high turnover rate, which can be a risk factor to generating value and managing knowledge.

Attracting and retaining committed and value-aggregating professionals is a core issue in the understanding of organizational behaviour. A traditional approach to managing this issue is related to the creation of a psychological contract between the PM professional and the project’s enterprise. Rousseau states that “psychological contracts are the beliefs of individuals concerning the reciprocal obligations between them and their organizations” (1989, p. 390).
The concept of psychological contracts was introduced by Argyris (1960) and remained dormant for a period until it was revised in the 1990s. According to Turnley and Feldman (2000), the market increase during the second half of the 1990s pressed companies to offer major compensation and benefits packages to attract and maintain talents. The authors also state that most of these fringe benefits given in the 1990s received major cuts as an answer to increasing economic and market pressures. The result of these changes and cuts, human resources’ expectations and thus psychological contracts, has been shaken.

Psychological contracts are implicitly negotiated among individuals and their organizations and not explicitly defined and written as formal contracts, although they relate to the terms of this relationship. According to Turnley and Feldman (1999), psychological contracts emerge when certain rewards are informally given by organizations and perceived as “deserved” by professionals who performed according to both formal and informal expectations. Psychological contracts come into existence on an individual and automatic basis.

The function of the psychological contract is to reduce insecurity (Ven, 2004), once it comprises other employee–employer relations that are not described or formally defined in formal contracts. “A central element in the psychological contract is the employee’s belief that the organization will fulfill its promises and agreements” (Suazo et al., 2005).

Recent studies suggest that workers try to maintain equity between the benefits and the costs of their relationship with their organizations (Adams, 1965). This action generates employees’ expectations about what they should expect from their organizations and how they feel about what they owe to the company. As a result, employees who perceive violations in their psychological contracts, in response, decrease their contributions within the organizational context (Turnley and Feldman, 1999).

Turnley and Feldman (1999) state that professionals generally form their expectations from two sources: their interactions with the company’s representatives and their perceptions of the organizational culture. The psychological contract is developed based on both sources during the recruiting phase and the first experiences that those professionals face in their roles.

In the beginning months, newcomers’ expectations about the organization’s role are higher than their expectation of their own role in the company. These new workers tend to perceive the company from the most optimistic and positive point of view. The quick development of new psychological contracts during the socialization phase has major implications for employers (Ven, 2004). By applying an individual competence mapping tool and creating a specific development plan focused on PM, the company can stimulate the professional to focus on achieving organizational results instead of worrying about the project scope (which should already be well defined) and choosing the management tools used in the project (which is a consequence of correct project management).

The compromise level of PM professionals is a black box, varying from organization to organization. In this scenario, one should also consider different management structures, such as different functional structures, project-oriented enterprises and project management offices, taking into account that this concept of project-oriented structures is not mature in the Brazilian context and its role is, in many cases, vaguely defined.

In addition to this complex scenario, projects and their temporary nature create temporary organizational structures inside the organization, together with its fixed formal structure. Tension tends to rise between the two roles – professionals as formal employees with their functions and responsibilities and their tasks as project managers and team members – fostering a dichotomy between responsibility and authority when performing project activities. This aspect can generate a misalignment within stakeholder expectations, with an internal struggle for the allocation of human resources and time, making PM development a core competence of the organization.

Dealing with this scenario requires the understanding of the profile of the professionals involved in the project. Psychological contracts can be understood as the basis of the work relations of employees’ creeds of reciprocity about their companies and themselves (Rousseau, 1995). The increasing demand for PM professionals in the Brazilian market and the imbalance between professionals’ expectations and those of their companies can lead to the violation of the psychological contract (Turnley & Feldman, 2000). It is the role of the project leader to align all the expectations with his company’s expectations and select appropriate members for his project team, who possess resilience and open communication skills to maintain the expectations and keep the team satisfied and focused on the results.

Resilience is the capability of maintaining self-control and being ready to make decisions under pressure. This competence is useful in ever-changing environments with projects that have multiple interfaces and complex
relations, such as huge machinery and structure projects in O&G. Communication openness is a competence able to support feedback procedures, aligning PMO team members’ and leaders’ expectations and strengthening the psychological contract between company and professionals.

4. Managing projects using competences

This article adapts the concept of core competences (Hamel & Prahalad, 1990) by applying it to develop the modus operandi of the enterprise resource usage in an optimized way, with the objective of attending to the necessity of goods and services innovation demanded by the market without focusing solely on the product characteristics in the original concept.

Professionals are constantly required to create value through the management of projects, programmes and portfolios. Dealing with managers and team competences is a fundamental challenge, as organizational competences become their differential factor.

“Competence” has a Latin origin – *competentia* – which means “authorized to judge”, as much as “having the right to speak”. Consequently, the word has not lost its meaning, as companies are looking for competent managers to orchestrate their project activities. Because of this, competence mapping and management are changing human resource management. Competence is a collection of personal attitudes, abilities and experience necessary for the successful exercise of a determined function (IPMA, 2006).

The use of the term dates from the Middle Ages, restricted to legal studies and defined as a courtroom, jury or individual being “competent” to judge a case. Afterwards, the concept embraced the idea that someone is able to offer opinions on a certain subject. Sometime later, the term started to mean people’s qualification to fulfil a determined task well (Carbone, 2009).

The first organization to manage PM concepts specifically was the IPMA in 1965, with all the knowledge condensed in the set of rules known as the International Competence Baseline (ICB). The IPMA’s focus was on three categorized competence groups: technical, contextual and behavioural competences (Figure 1); representing the integration, the “Eye of Competence” model was designed as the set of skills needed “to be overseen” by the project manager in each specific situation.

![Fig.1. The Competence Eye](image)

All summed professional profiles – manager, team and other related PMO professionals – must balance all the competences needed, according to their roles. These detailed competences are described below:

- Technical competences – they describe the fundamental competences of the project manager. This set of competences, sometimes called solid knowledge, encompasses all the skills needed by the project manager and
related to the project life cycle: initiate, plan, execute, control and close.

- Behavioural competences – these gather the personal competence elements of the project manager. This set is related to attitudes, abilities and behaviours that are relevant to dealing with different team challenges during the project life cycle.
- Contextual competences – they describe the competence skills related to the contextual management of the project. This set covers the relationship of the project manager with the functional managers and the capability to perform in a project-oriented organization. This function has the role of aligning programme and project management with the organizational aspects of the company, such as the strategic plan and the structure into which the project is inserted.

To evaluate the level of utility of each competence, one should consider not only the project maturity level of the organization, but also the rate of development of this maturity within the company. Figure 2 shows all the competences listed by the IPMA baseline in the three sets. The project professional must develop a combination of these skills, depending on which tasks he/she needs to perform at which level of expertise. It is noteworthy that the behavioural competences encompass important elements to create and manage a proper psychological contract between leadership and team. Competences that are able to create an integrated and collaborative environment, such as creativity, openness, commitment and motivation, are milestones of successful team management, whether in projects or in functional teams.

![Fig. 2. Project Management Competences](image)

A project’s performance is dependent on the team that is on the frontline of its activities. The responsible team’s competences should be mapped in relation to a competence baseline system specific to project management and with a focus on completing tasks and accomplishing results, which the IPMA Competence Baseline aims to achieve.
The project leader must discuss with all the team members the required adequacy of one new member to fulfil the specific tasks for which he/she is being hired. Not only must the development of the necessary competences for the specific tasks be considered, but also the reinforcement and strengthening of the psychological contract must be taken into account.

There are cases in which PM leaders have no role in selecting and hiring the professionals in their team, and even some cases in which they inherit an already-defined team from a running project. In these cases, mapping the competences of the team – the existence and level of knowledge – and its suitability for the context of the project can help in the creation of a development plan to gain the needed skills, manage different behaviours and avoid conflicts of opposite characters.

In the Brazilian context, there is a rather complicated dysfunction, which is the dichotomy between the assigned responsibility and the real authority of project managers in Brazilian organizations. Project managers and other project-related professionals tend to have a defined role in projects, but in real daily situations, their authority to define and power of negotiation are not recognized by the company’s members, generating frustration and stress and degenerating the psychological contract up to rupture point (Barbosa & Guimarães, 2005).

As frustration and stress break the psychological contract, professionals lose their motivation, commitment to the company and engagement (Turnley & Feldman, 2000), creating a barren environment in which to manage any project, leading the team not to fulfil goals and achieve results but to execute tasks bureaucratically without commitment to time, scope and costs.

This authority–responsibility dichotomy is a challenge to project managers (Hersey & Blanchard, 1977), and team leaders have to deal with the reality that the company’s cultural environment will not change in the short term, so dealing with this on a daily basis is quite a bitter reality. The question that arises concerns the professional profile needed by the PM leader to deal with this, perform accordingly and achieve results.

Firstly, project-oriented organizations or organizations that use projects on a regular basis must have skilled professionals to control and align constantly all the results achieved throughout the project life cycle with the strategic goals and objectives, ensuring that the project portfolio, although segmented, does not diverge from the core business of the organization (Mersino, 2009).

5. Conclusion

This article’s goal is to discuss the idea that project management should be addressed as a core competence of organizations that aim to perform with competitiveness and accuracy in forecasting processes. To accomplish that goal, the psychological contract between employees and organization is a key concept in developing a PM competence plan. It is proposed that the IPMA model is a good starting point as a model not only to develop this human resource allocation plan but also as a tool to research the competences of organizations, studying the correlation and causal relations between competences and performance indexes and indicators.

In a scenario of highly competitive and scarce resources, such as the global marketplace, it is essential to plan, evaluate risks and define goals correctly with an accurate scope. To provide a quick response to these challenges, professionals with project management skills and the definition of PM skills, abilities and behaviour development designed as competences of the organization can provide a better way to overcome problems and avoid project delays, increasing organizational performance.

To accomplish that, a company needs to develop a stimulating and compromise-generating environment, fostering a systemic and result-oriented team to validate the company’s mission and vision of the future. The psychological contract is the key to understanding this relationship between the organization’s professional team and the intended performance of the project. The central point of the psychological contract is the belief that the employer will honour its obligations and supply a developing environment for professional activities. In this sense, mapping individual competences in PM with the IPMA model can create a landscape with points to be enhanced, defining a stable and well-defined PM career inside the organization. By mapping competences, a company can define a control scorecard and use it to progress these competences, forecasting the future needs to develop PM as a core competence of the company.

As suggestions for further research, some points can provide good themes for future studies, such as how
organizations should establish psychological contracts with temporary workers in projects. how they can develop a governance structure based on the IPMA competence baseline and how they can apply it to develop PM as a core competence in Brazilian organizations, taking into account the authority–responsibility dichotomy.

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