

The Relationship between McGregor's X-Y Theory Management Style and Fulfillment of Psychological Contract: A Literature Review

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DOI Link: <http://dx.doi.org/10.6007/IJARBSS/v3-i5/112>

Published Date: 21 May 2013

Abstract

The purpose of this paper is to trace McGregor's X-Y theory and its relationship with fulfillment of psychological contract. This is a review article relying on literature reviews and synthesizing concepts and ideas from related sources. McGregor's X-Y theory is a natural rule for managing people. McGregor's ideas suggest that there are two fundamental approaches to managing people. Theory X management style generally get poor results compare with managers use theory Y, which produces better performance and results, and allows people to grow and develop. This paper argues that Theory Y managers are the effective leaders who could fulfill the psychological contract of employees. Therefore, psychological contract fulfillment is closely related to theory Y management's style. Furthermore a modern idea of management style; the autocratic style of management is closely related to traditional McGregor's theory X and the democratic is related to Theory Y management style. This area of study is suggested for future research.

Keywords: Theory X, Theory Y, Management Style, Psychological Contract, Psychological Contract fulfillment.

1.0 Introduction

Generally, the study of Psychological interaction between the management of an organization and the subordinate employees are very wide. Before considering distribution of works, an organization must decide from the outset how to deal with employees. In order to lead to improved performance for the company and possibly to improved employee relations, a strong understanding of the relationship should be practiced. Thus, numerous theories have been designed related to the psychological interaction between the management of an

organization and the subordinate employees. Theory X and Y which deals with the motivational factors that influence employee behavior was one of the theories. Since Theory X and Y dealing with a complete system of interaction, similar to how a physical model simulates the behavior of a physical system, Theory X and Y considered as 'models'. Douglas McGregor is the one who constructed Theory X and Y in the 1960s.

Theory X and Y created by McGregor has been a valid basic principle from which to develop positive management style and techniques. McGregor's ideas suggest that there are two fundamental approaches to managing people. Several managers influenced by theory x, and generally get poor results. On the other hand, liberal managers use theory y, which produces better performance and results, and allows people to grow and develop.

Moreover, McGregor's concept relatively relate to modern understanding of the Psychological Contract, which provides several ways to appreciate the unhelpful nature of X-Theory leadership, and the useful constructive beneficial nature of Y-Theory leadership. The aim of this research is to review and synthesizing concepts and ideas from related sources relying on literature reviews to argue that there is a relationship between Theory X, Theory Y management style with fulfillment of Psychological Contract.

2.0 Literature review

Theory X and Theory Y was an idea devised by Douglas McGregor in his book "The Human Side of Enterprise" 1960. It encapsulated a fundamental distinction between management styles and has formed the basis for much subsequent writing on the subject.

2.1 Theory X

In the first few decades of the 20th century Theory X is the style that predominated in business after the mechanistic system of scientific management had swept everything away. Theory X is an authoritarian style where the emphasis is on "productivity, on the concept of a fair day's work, on the evils of feather-bedding and restriction of output, on rewards for performance (Tim Hindle 2003). Latterly Theory X has been considered as a negative way of dealing with employees. In this theory its assume that employees are, by nature, reluctant to fulfill the obligations of their job and instead will find ways to avoid work or otherwise reduce their work output in a bid to expend the least amount of effort possible. When there is more motivated management staff and owners urge the employees into making them work, the company will be successful and have productive employees as conceived by Theory X. In order to detect attempts by the staff to avoid work it is demanded a strict control and monitoring of behavior. The authority must keep a careful eye out for sabotaging effects by self-interested employees and find the cause of disruptions, handing out penalties in the belief that a sincere wish to avoid responsibility is the root cause for the majority of trouble.

2.2 Theory Y

Theory Y is a participative style of management which "assumes that people will exercise self-direction and self-control in the achievement of organizational objectives to the degree that they are committed to those objectives". It is management's main task in such a system to

maximize that commitment (Tim Hindle 2003). In many ways, Theory Y is, the diverse to that of Theory X. Rather than taking the view that employees must be forced to do what management want and that they will not, under any circumstances, do anything beneficial for the company under their own direction, Theory Y states that employees actually become more productive when more trust and responsibility is delegated to them. According to Theory Y, employees do wish to work and be productive and the act of doing well at work is itself a strong motivator. Moreover if the employee's will seek responsibility and ways to be productive, if they are allowed to do so. Regarding to Charles M. Carson, (2005), McGregor theory Y stands in a unique place in management history and advocated a heightened awareness of management's responsibility for the human side of employer-employee relations.

In a nutshell, according to McGregor: "Man is a wanting animal and as soon as one of his needs is satisfied, another appears in its place. McGregor urged companies to adopt Theory Y. Only it, he believed, could motivate human beings to the highest levels of achievement. Theory X merely satisfied their lower-level physical needs and could not hope to be as productive.

2.3 Psychological Contract Fulfillment

The employment relationship has undergone a number of significant changes in recent years. In large part, this transformation has been brought about by the increasing globalization of business, by the dramatic rise in the number of mergers, restructurings, and layoffs, and by the increasing rate of change that permeates all of organizational life today (Kissler, 1994; McLean Parks & Kidder, 1994). As a result of these events, psychological contracts have become increasingly important in helping to define the contemporary employment relationship.

Psychological contracts consist of the beliefs employees hold regarding the terms and conditions of the exchange agreement between themselves and their organizations (Robinson, Kraatz & Rousseau, 1994; Rousseau, 1989). Particularly, psychological contracts are comprised of the obligations that employees believe their organization owes them and the obligations the employees believe they owe their organization in return. Psychological contract breach arises when an employee perceives that his or her organization has failed to fulfill one or more of the obligations comprising the psychological contract (Morrison & Robinson, 1997; Robinson, 1996).

Recent research has investigated that psychological contract breach has cause negative consequences of (or violation) on employee attitudes and behaviors (e.g., Robinson, 1996; Robinson & Morrison, 1995a; Robinson & Rousseau, 1994; Turnley & Feldman, 1999a). This literature suggests that psychological contract breach results in a wide array of negative outcomes, including reduced job satisfaction, reduced trust in the organization, increased cynicism about organizational life in general, and increased intent to quit.

Thus, it is important to determine whether psychological contract fulfillment is related to management style. The goal of this research is to focus on the relationship between psychological contract fulfillment and management style of organization. In specific, this

study is to review and synthesizing concepts and ideas from related sources relying on literature reviews to argue that there is a relationship between Theory Y management style with fulfillment of Psychological Contract.

3.0 Discussion

Based from the literature review, Douglas McGregor proposed, in 1960, 2 types of managers. Generally the 'Theory X' perceptions are that the employees lazy and need to be closely monitored and comprehensive control systems are needed. On the other hand, 'Theory Y' managers are opposite where they assumes employees are ambitious, enjoy work and are more productive if given the freedom to shine. This shows that the managers who use 'Theory Y' are positive people while manager who uses 'Theory X' are negative people.

Chris Argyris was also introduced the Psychological Contract 1960. In 1989, Denise Rousseau defined the Psychological Contract as, "the beliefs individuals hold regarding the terms and conditions of the exchange agreement between themselves and their organizations". In other words, what they believe they owe the organisation and what the organisation owes them.

The Psychological Contract only really came back to prominence in the 1990s as a result of the economic downturn which led to mergers, restructures and down-sizing while before that it was kept a low profile during the 70's and 80's. The only changes that followed is in how staff viewed and felt towards their employers. Inge Van den Brande, said that the Psychological Contract helped describe those changes, and therefore its profile was raised.

As we find ourselves in the next economic downturn on from the one in the 1990s, it is worth reflecting on both these models. From an organisational perspective, are they Theory X or Theory Y manager (or member of staff)? Will the organisation need to adapt their preferred Theory as the financial crisis bites, and if so, how will they handle this? And will they need to amend their Psychological Contract with their organisation or their staff? The most important is whether theory X managers helps to fulfill the psychological contract or Theory Y managers of their employees.

Furthermore, a modern idea of management style from Rensselaer Polytechnic Institute categorized management style into two main contrasting styles, autocratic and permissive. Additionally, ManagerialSkills.org also categorized management styles divided in the main categories of autocratic, paternalistic, and democratic and this idea further developed by Robert Tannenbaum and Warren H. Schmidt (1958, 1973). Robert Tannenbaum and Warren H. Schmidt (1958, 1973) argued that the style of leadership is dependent upon the prevailing circumstance; therefore leaders should exercise a range of management styles and should deploy them as appropriate. So, Management Style can be defined as a characteristic ways of making decisions and relating to subordinates in working place.

Based on modern idea of management style, the autocratic style of management is closely related to traditional McGregor's theory X and the democratic is related to Theory Y management style. An autocratic management style is one where the manager makes decisions unilaterally, and without much regard for subordinates and it will reflect the opinions and personality of the manager, which in turn can project an image of a confident,

well managed business .The democratic style of manager allows the employees to take part in decision-making: therefore everything is agreed upon by the majority. The communication is extensive in both directions from employees to leaders and it is vice-versa. As Psychological Contract needs a sets of dynamics for the relationship and defines the detailed practicality of the work to be done, we can conclude that Psychological Contract closely have relationship with Theory Y management style.

In a nutshell, McGregor's ideas suggest that there are two fundamental approaches to managing people. Several managers used theory x, and generally get poor results. In order to produce better performance and results and allows people to grow and develop, knowledgeable managers use theory y. McGregor's brainstorm relatively relate to modern understanding of the Psychological Contract, which provides several ways to appreciate the unhelpful nature of X-Theory leadership, and the useful constructive beneficial nature of Y-Theory leadership. It shows that Theory Y managers are the effective leaders who could fulfill the psychological contract of employees.

4.0 Conclusion

Theory X-Y by McGregor is one of the easy ways to conduct people with natural rules, in daily business which goes through pressure. The concept of McGregor says that there are two fundamental approaches to managing people. Several managers influenced by theory x, and generally get poor results. On the other hand, liberal managers use theory y, which produces better performance and results, and allows people to grow and develop. Theory Y managers are the effective leaders who could fulfill the psychological contract of employees. It's believed that mainly Theory Y management's style is about psychological contract fulfillment and this area of study is suggested for future research.

Acknowledgement

I would like to thank to my PhD advisor Dr Che Supian Mohamad Nor who worked hard to design this paper

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