



## Salary Management Model of Professional Managers -Based on “Agent and Salary Theory” and “Psychological Contract Theory”

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### Abstract

With the foundation of the modern company system, commission-procurement theory becomes the dominant mode of working out the salary management of enterprises. However, many experts from all over the world derived a conclusion that there is little connection between agent and the salary. Psychological contract theory brought new perspective and conception. Meanwhile, the core staff has been washed away due to the intensive change of the organization. To build a long-term relationship and the psychological contract theory between staff and organization plays an extremely vital rule.

**Keywords:** Salary management, Psychological contract theory, Agent and salary theory

The object of study in this article is the modern professional managers of enterprises those who play a leading business and handled a sense of mission. Inside, the majority of people are constrained by few keys as well as the future of the company. So it's more important to inspire those few people, as the management of salary is a core mean to do so. Yet, to a great extent, the spiritual salary has always been ignored. What's more, in a sense, spiritual salary can be instead of material reward. From which, we can economize the deputy cost of the Client. As the core of this study is to analyse and build the psychological contract between agent and client and the material reward based on the psychological contract of pro-managers.

### The dimensions and type of psychological contract

The conception of "psychological contract" was first claimed by Organizational Psychologists-Argyris(1960),who emphasized that excepted for the content of official employment contract, the relationship of staff and the organization include a tacit ,officious , undocumented mutual expectation which contained individual level and organization level, the expectation of the mutual accountability between staff and organization.

### The dimension of psychological contract

In identification of the dimension of psychological contract, since last century the 90's in the theory circle spread out a server argue between two schools. Herrior & Pemberton (1995) represented the classic school, considered that a psychological contract is the subject explanation of the value provide by the both side of employment and the relationship of them. The research perspective is study upon the both side of employment--"two- dimension and the square" of the individual and organizations' level, that is, the staff's responsibility and the organization's responsibility based on the organization's understanding and based on the staff's understanding."

"Rousseau school" thinks that organization is abstract, which can only creative the environment of psychological contract, but the psychological contract between both members. Rousseau(1990) figures that psychological contract is, under the employment background, the understand and faith of both sides' mutual obligation. The perspective of which becomes " one dimension, one plane" research. And it accentuate the responsibility toward organization of the staff and the perceive of individual's. This definition which built on individual level is quite simple and clear.

### Types of Psychological contract

The authority theory in Psychological contract field concludes this psychological contract from a transactional relationship to an intermediate continuum. Staff trade overwork hour and extra work with high reward, performance

award, training and career development; "transaction contract" is a contract relation based on economic exchange. Long-term work, loyalty and willing to take the arrangement of the inner work adjustment is something willing to ensure a job security, which is a contract relationship based on social emotion exchange. It has been called "relationship contract" (Rousseau 1990).

Dr. Weifeng (Fudan university) through the analyzing a demonstration of the psychological contract upon organization and the manager concluded the "triple cone construction" from the organization to the manager, besides "transactional relationship contract" and relationship psychological contract", in allusion to the manager, "management psychological contract" has been pointed out, it focus on the privileges and special benefits provided to those who in key position or with management functions by organization, which is to say, managers think organization should take the obligation of appropriate authorization, full confidence, open mutual communication, special bonus upon exceptional performers, career programming. This result used as a reference to this article.

According to the commission-procurement theory, for the interest of the agent and the client has always been different, if client cannot restrict agent, agent would make decisions from their own benefit but the best decision to the client. In the agency relationship, compared with client, agent will learn the specific information about the certain job divided, and fully understand their own acting, ability and preference. The information asymmetry, incompatibility, unlikeness of responsibility and the imperfection of the contract will cause the opportunism of the agent and moral risk. Due to this point, client will have to extort agency cost. To work this problem out, when setting up the excitation mechanism, the salary of manager and the result of operation should be closely-related. In this case, the interest of both client and agent will be identical, and then the agent will make decisions which will benefit the company the most. So the salary system of professional manager--annual salary system, and the stock option are all designed based on commission-procurement theory.

However, the precondition of commission-procurement theory assume that the agent is a egocentric man of business, but the majority of the entrepreneurs donot overvalue money and power, they aspire after the attainment in career, focus on joy and satisfaction in the course of working. This can be explained by the achievement motivation theories (McClelland). Because of this, to avoid opportunism activity by monetary incentive is a way to simple. This conflicts the precondition of the agency theory. The appearance of the psychological contract theory may be the complementarity of the agency theory, that is, to rely on the organization responsibility based on staff understanding, intensively inspire professional managers, those inspiration not only from monetary inspiration but also from spirit encouragement.

The agent theory also proposed to control the opportunistic behavior through the combination of manager's pay and performance. This managers' **relationship-based contract** is based on the assumption of confidence, while the tight integration of remuneration and performance will reduce the trust relationship between principal and agent thus lower the morale, providing the atmosphere of encouragement to the opportunist; and a more serious result is, resulting in the manager's psychological contract breach, and force them enter into a **transaction-based contractual relationship**. If their self-interest can not be met, that they may withdraw from the existing companies without any cost go looking for another client. Therefore, to build a relational psychological contract, and give professional managers sufficient confidence and more decision-making powers while encouraging risk-taking behavior when the establishment of long-term relationship with confidence with professional managers is bound to reduce their opportunistic behavior, and at the same time reduce agency costs. This is a win-win choice to the company.

### **Psychological contract theory in the management of the Professional managers' pay**

The analysis mentioned above on the trends of dynamic changes of psychological contract between employees is aimed at the majority of the general staff, and followed by the analysis on the type of psychological contract of professional managers, of which are in small number but have played an important role in the business activities of enterprises. Due to the different nature of their work as well as a significant impact on the enterprise, their psychological contract is different from the general staff. These two types of groups can not be regarded as equivalent, and should make differences in management with awareness, strategy, plans and actions.

### **The integration of Principal-agent theory and psychological contract theory in the management of pay**

The above proves that there are some drawbacks in the pay system based entirely on the agency theory when motivating acts of their agents. However, this is not to say that the theory is wrong. It can only prove that the manager, as a complicated social man, their new incentive cannot be explored only from the perspective of agency theory. The psychological contract will have a significant impact on the manager's behavior. Some scholars have begun to explore how to combine the agency theory and psychological contract theory. This paper presents a integration model of incentive pay, of which the material pay is design and based on the principal-agent theory, combining the performance of professional managers, giving them material incentives. However, the principle of fairness should be kept, which is the psychological contract requirements. At the same time, psychological contract theory, as a complementarity to the principal-agent theory, added that the construction of the trust relationship between principal and agent will not only

throughout the whole concept of pay administration, but also to find a real vector. According to the organizational responsibility understood by employees as outlined in empirical analysis of psychological contract theory, it can be changed into spiritual remuneration to be built, and to realize the complementarity and integration of principal-agent theory and psychological contract theory in the construction of pay model, see Figure 1.

Insert Figure 1 here

### **Exploration on professional managers' spiritual remuneration based on psychological contract**

Through the earlier analysis, professional managers have both general transactional psychological contract, and what is more important their type-specific managing psychological contract and relational psychological contract. Their awareness of the responsibility to organizations comes down to 12 main areas: transactional psychological contract, the internal election, competitive pay and benefits, regular raises; relational psychological contract, stable jobs, comfortable working environment, organization's not making unreasonable demands, provision of training and learning plans; the managing psychological contract type, the appropriate authorization, the full trust and open two-way communication, special incentives to the outstanding performance, career planning. Except the two entries relating to the maintenance and stability of material pay included in the transactional psychological contract, the other 10 entries could be achieved in the construction of spiritual remuneration, which can also prove that the construction of the spiritual remuneration is mainly based on the relational psychological contract and the managing type.

**Corporate culture.** Its core is to establish common values, values of employees, atmosphere of team spirit, etc. Excellent corporate culture is better than any administrative command and order. It can promote Professional managers' values and the core values of corporate to maintain unified, attach great importance on the needs of professional managers and ensure that the professional managers play to the full, enhancing the professional managers' enterprises loyalty.

**Personal development.** This includes promotion and training of professional managers. This is a subject can not be ignored when discussing corporate governance. Personal development and career growth of employees is increasingly becoming the focus of enterprises and their employees. For enterprises, that is investment in human resources, a critical point of enterprise growth and development, especially for the training of professional managers, it can bring tremendous value-added human capital, thus bring greater returns for enterprises. For the individual Professional managers, they pay more attention on training and development more than the payment. Therefore, Chinese enterprises should train Professional managers on the actual situation of themselves.

**Business success.** Including challenging work, is a sense of accomplishment. Professional managers as compared with the general staff have a strong sense of achievement motivation, their demands are in a higher level, and are concerned about the realization of their own values. Their sense of accomplishment comes from the embodiment of their own values, thus the accomplishment of work can provide a higher sense of incentives, which can also be explained with McClelland's achievement motivation theory. Achievement demands are derived from the pursuit of success and the achievement of objectives. Professional managers' goal is to achieve their own values, so the organizational task he wanted is to set challenging performance targets.

**Good reputation mechanism.** From the management point of view, the pursuit of a good reputation is professional managers' needs of the achievements developing. Efforts of professional managers are not only to get more compensation, but also expect to be highly valued and respected. In the manager market, the reputation of professional managers is not only a long-term success in professional managing, but also an important proof of its ability of operating and managing. It's very necessary to establish a good reputation mechanism in the construction of professional managers' spiritual remuneration, which is also in line with professional managers' expectations of the organization in psychological contract.

**Incentive pay** has a very important principle that the material incentives and spiritual incentives should combine together. This paper analyses that the deficiencies in the current implementation of material remuneration based on an analysis of principal-agent theory has reduced the trust between principal and agent. This paper, take the complement to the principal-agent theory as an opportunity to introduce a psychological contract, which is designed to build long-term trust between principals and agents, reducing the agents' opportunistic behavior, and advised to build the spiritual remuneration for professional managers on an basis of psychological contract theory, which obviously have more practical significance in professional managers' maintenance, keeping and improvement on contracts.

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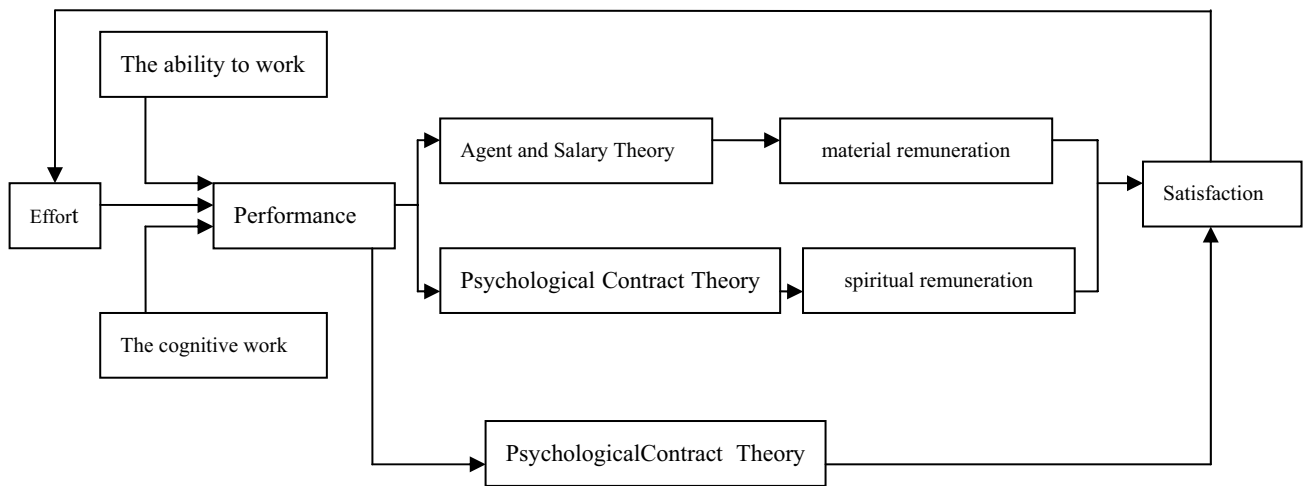


Figure 1. A Integration Model of Incentive Pay