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- [Home \(/\)](#)
- [Knowledge hub \(/knowledge\)](#)
- [People management fundamentals \(/knowledge/fundamentals\)](#)
- [Managing the employment relationship \(/knowledge/fundamentals/relations\)](#)
- [Employee relations \(/knowledge/fundamentals/relations/employees\)](#)
- The psychological contract

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The psychological contract

Examines the history, state and strategic implications of the psychological contract

On this page

On this page

Introduction

On its own, the legal contract of employment offers a limited representation of the employment relationship, with workers contributing little to its terms beyond accepting them. In this sense, the psychological contract may be more influential as it describes the perceptions of the relationship between employers and workers and influences how people behave from day to day. At its core, the psychological contract is built on the everyday actions and statements made by one party – and how they are perceived and interpreted by the other. It's intangible by nature, unlike the legal contract of employment signed by employers and workers.

This factsheet explores the psychological contract within the context of the modern employment relationship. It identifies ways that managers can bolster the psychological contract and its impact on broader organisation strategy. The factsheet also considers the role of HR in managing the psychological contract.

CIPD viewpoint

The psychological contract emphasises that the relationship between employers and workers is more than just a transaction regulated by a legal contract. As in any relationship, both parties have informal expectations of each other that – although unwritten – can significantly affect the length and quality of their relationship.

Drawing on insights from psychology and organisational behaviour, the concept of the psychological contract provides a powerful rationale for employers to pay attention to the 'human' side of the employment relationship, such as individuals' values, motivations, and ambitions. The nature of the psychological contract varies across time and individuals. For instance, job security is rarely the main offer of the modern employment relationship, and not all employees desire it. Other opportunities, such as availability of training and development, might be more attractive.

To manage the psychological contract effectively, regardless of the expectations of an individual worker, employers should be transparent about what they offer, and consult with the current and future workforce on the employee value proposition. They should also strengthen capability of line managers to understand and adjust the perceived balance of what employees contribute and what they get back.

[What is the psychological contract?](#)

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The term 'psychological contract' refers to subjective expectations, beliefs and obligations, as perceived by the employer and the worker. The concept emerged in the early 1960s and is core to understanding the employment

relationship. Although the notion of psychological contract describes the expectations of both employers and individual workers, the concept has been mainly studied from the perspective of the employee.

The psychological contract is different from a legal contract of employment which will, in many cases, offer only a limited and uncertain representation of the reality of the employment relationship. The legal contract refers to a written agreement about the mutual obligations of the employer and the worker. The psychological contract, on the other hand, describes how the parties themselves understand their relationship, their own perceptions of what they commit to the relationship and what they can expect to receive in return. The psychological contract isn't generally enforceable, though courts may be influenced by a view of the underlying relationship between employer and employee, for example in interpreting the common law duty to show mutual trust and confidence.

People's perceptions of employers' obligations are often informal and imprecise. They may be inferred from actions (even towards other employees), or from what has happened in the past. For example, an employee observing a manager in a different department granting a flexible working request may expect similar treatment from their own manager. Another source of expectations is statements made by the employer to the individual, for example, during the recruitment process or in performance appraisals - or publicly, for example in the statement of company's values.

What is covered by the psychological contract?

There isn't a definitive list of expectations and obligations describing the content of the psychological contract, and many scholars have chosen to focus on its nature instead - exploring the duration or stability of the exchange, for example.

Broadly, the psychological contract may cover the following aspects of the employment relationship:

- job security
- career prospects
- training and development
- perceived fairness of pay and benefits
- manager support
- employer's reputation and impact on the society.

Employees in large organisations do not identify any single person as the 'employer'. Line managers are important in making day-to-day decisions but employees are also affected by decisions taken by senior management and HR. Employees may have little idea who, if anyone, is personally responsible for decisions affecting their welfare or the future of the business. Unsurprisingly, attitude surveys confirm that employees' experiences at work are strongly affected by the quality of line management, whom they see on a regular basis. It is fair to say that for many employees the psychological contract is largely the deal they have with their direct line manager.

The significance of psychological contract

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The quality of the psychological contract heavily influences how employees behave from day to day. Workers who perceive it as balanced in terms of the contributions they make to the organisation, and what they receive back from the employer, perform better, demonstrate more extra-role behaviours, and indicate a higher level of commitment to the organisation. See more of our resources on [managing the employment relationship](http://www.cipd.co.uk/knowledge/fundamentals/relations/) (<http://www.cipd.co.uk/knowledge/fundamentals/relations/>).

The psychological contract is based on employees' sense of fairness and trust, and their belief that the employer is honouring the 'deal' between them. This is why violation (or breach) of psychological contract by the employer can have sudden and powerful consequences for people and organisations, negatively affecting job satisfaction, commitment, performance, and increasing turnover intentions.

Breaches of the psychological contract by an employer are not always avoidable, for example, where external factors like negative economic outlook impact the 'deal' between the business and its people. However, organisations can still avoid many negative consequences if they demonstrate fairness in how they deal with the situation, even if they can't guarantee positive outcomes for all. Read more in our report [The changing contours of fairness](http://www.cipd.co.uk/knowledge/culture/ethics/fairness-report/) (<http://www.cipd.co.uk/knowledge/culture/ethics/fairness-report/>).

During a 'contract repair' process, individuals attempt to restore balance, either by seeking alternative ways to meet their expectations or lowering their expectations of the bargain. For example, employees previously experiencing a 'relational' psychological contract (such as working additional hours in exchange for enhanced career opportunities) may withdraw their extra-role behaviours and transition to a basic 'transactional' deal. Others may react by displaying proactive behaviours, treating the situation as an opportunity to learn, to offset loss of position and uncertainty. To deal with contract repair successfully and avoid people leaving the organisation, individuals need to have the psychological and social resources, building resilience skills in advance. Read case studies from [Zurich Life \(https://www.cipd.co.uk/Images/landing-transformation-change_2015-case-study-zurich-uk-life_tcm18-9062.pdf\)](https://www.cipd.co.uk/Images/landing-transformation-change_2015-case-study-zurich-uk-life_tcm18-9062.pdf) and [Isos Housing \(https://www.cipd.co.uk/Images/best-good-practice-hr-developing-principles-profession_2015-case-study-isos-housing_tcm18-8768.pdf\)](https://www.cipd.co.uk/Images/best-good-practice-hr-developing-principles-profession_2015-case-study-isos-housing_tcm18-8768.pdf) about managing change in the employee proposition.

Managers need to remember:

- Employment relationships may deteriorate despite management's best efforts: nevertheless it is managers' job to take responsibility for maintaining them.
- Preventing breach in the first place is better than trying to repair the damage afterwards.
- Where breach cannot be avoided, it may be better to spend time negotiating or renegotiating the deal, rather than focusing too much on delivery.
- Interventions aimed to build resilience skills will help individuals cope better with contract breaches.

How is the modern employment relationship evolving?

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The psychological contract is a dynamic concept that can be applied to understand varying employer-worker relationships. Yet, patterns and trends can be observed over time: while for many years the traditional psychological contract focused on the promise of job security, the new deal focuses much more on learning and development to ensure individuals remain employable over the course of their careers.

However, employers should not underestimate the impact of individual differences: while some people are not interested in the concept of a job for life, and may want to move between jobs and change careers, other employees still value job security highly.

Changes affecting the expectations of workers include:

- uncertain economic conditions (for example, the impact of Brexit)
- technology facilitating production processes and shaping demand for skills
- rise in atypical contracts and the 'gig economy (<http://www.cipd.co.uk/knowledge/work/trends/gig-economy-hub/>)', creating a highly competitive global marketplace for some and offering extended career opportunities to others
- more employees expecting to [work flexibly \(http://www.cipd.co.uk/knowledge/fundamentals/relations/flexible-working/factsheet/\)](http://www.cipd.co.uk/knowledge/fundamentals/relations/flexible-working/factsheet/)
- organisations downsizing and delayering, putting more pressure on remaining employees
- collective bargaining is declining, with employers and individuals negotiating the relationship directly
- human capital being increasingly recognised as a source of competitive advantage
- traditional organisational structures becoming more fluid
- the public nature of corporate scandals, enabled by the media, that can undermine employees' trust in their employer.

In this changing context, employers have to pay attention to the key drivers of the employment deal, in order to be able to attract and retain key talent. To aid this, the psychological contract offers a framework for monitoring employee attitudes and priorities on the dimensions influencing performance.

How are employers responding to the changes?

In the context of unprecedented change and uncertainty in today's work environment, the UK government is committed to creating 'Good Work' and job quality, as highlighted in the 2017 [Taylor Review of modern working practices \(https://www.gov.uk/government/publications/good-work-the-taylor-review-of-modern-working-practices\)](https://www.gov.uk/government/publications/good-work-the-taylor-review-of-modern-working-practices). Our [UK working lives survey \(http://www.cipd.co.uk/knowledge/work/trends/uk-working-lives/\)](http://www.cipd.co.uk/knowledge/work/trends/uk-working-lives/) provides a comprehensive measure of job quality and a snapshot of workers' current attitudes to and experience of work.

Our previous research shows that despite the modern employment deal being based on the promise of employability, employers are highly selective about offering development and career opportunities across their workforces. Our report [Attitudes to employability and talent](http://www.cipd.co.uk/knowledge/strategy/resourcing/attitudes-employability-talent-report/) (<http://www.cipd.co.uk/knowledge/strategy/resourcing/attitudes-employability-talent-report/>) shows that in three out of ten organisations, opportunities to enhance careers were only available to some workers based on the value they could offer the employer. Those in roles requiring high levels of skills, holders of degree-level qualifications, as well as individuals whose skills were hard to replace, were more likely to receive training and development opportunities and have a degree of autonomy in how they perform their jobs.

While such an instrumental approach to distributing opportunities is understandable, it does leave open the question of its long-term sustainability:

- Firstly, there's a risk that employers' value-adding strategies contribute to employees' perceptions of the quality of the deal as highly transactional, and contingent on their continued ability to contribute, rather than one of mutual commitment. With loyalty of employees undermined, organisations may find they are struggling to retain staff over time.
- Secondly, employers have to consider the type of deal they are offering to the groups of workers, who are not considered to represent key talent. Disgruntled employees present risk of increased operational costs associated with high turnover, as well as risk of reputational damage.

The report also gives insights on [how employers' are shaping the employment deal](http://www.cipd.co.uk/knowledge/strategy/resourcing/attitudes-employability-talent-report/) (<http://www.cipd.co.uk/knowledge/strategy/resourcing/attitudes-employability-talent-report/>).

HR's role in managing the psychological contract

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The psychological contract is central to people performance and engagement at work. Successful management of employee expectations requires people professionals to have an input to the broad organisational strategy, as well as to design and implement the people management and development practices that support it.

Specific areas of focus include:

- **Employer brand:** to be clear on what they expect of and offer to employees, many organisations have created a set of corporate values or a stated mission - an 'employee value proposition' or 'employer brand' - which employees will recognise and relate to. In practice, the employer brand can be seen as an attempt by the employer to define the psychological contract with employees so as to help recruit and retain talent. Read more in our [employer brand factsheet](http://www.cipd.co.uk/knowledge/fundamentals/people/recruitment/brand-factsheet/) (<http://www.cipd.co.uk/knowledge/fundamentals/people/recruitment/brand-factsheet/>).
- **Communications:** an effective two-way dialogue between employer and employees is a necessary means of giving expression to employee 'voice'. Our factsheets on [employee voice](http://www.cipd.co.uk/knowledge/fundamentals/relations/communication/voice-factsheet/) (<http://www.cipd.co.uk/knowledge/fundamentals/relations/communication/voice-factsheet/>) and [employee communication](http://www.cipd.co.uk/knowledge/fundamentals/relations/communication/factsheet/) (<http://www.cipd.co.uk/knowledge/fundamentals/relations/communication/factsheet/>) give more on these related topics.
- **Learning and career development:** employability is a key employment offer to many workers, and so people expect their organisation to offer opportunities for skills and career development. Yet, a third of employees in the UK were disappointed with their career progression in 2017. Read more on [employees' views on their careers](http://www.cipd.co.uk/knowledge/fundamentals/people/development/outlook-skills-careers/) (<http://www.cipd.co.uk/knowledge/fundamentals/people/development/outlook-skills-careers/>).
- **Management style:** in many organisations managers can no longer control the business 'top down' - they have to adopt a more 'bottom up' style. [Line managers](http://www.cipd.co.uk/knowledge/fundamentals/people/hr/line-managers-factsheet/) (<http://www.cipd.co.uk/knowledge/fundamentals/people/hr/line-managers-factsheet/>) are also key to understanding and managing employees' expectations on what fair processes and outcomes look like in an organisation.
- **Managing expectations:** employers need to make clear to new recruits what they can expect from the job. Managing expectations, particularly when bad news is anticipated, will increase the chances of establishing a realistic psychological contract. Our report [Where has all the trust gone?](#)

(<http://www.cipd.co.uk/knowledge/culture/ethics/has-trust-gone-report/>) re-examines the issue of trust, exploring why it matters and what can be done to repair it.

- **Measuring employee attitudes:** employers should monitor employee attitudes on a regular basis as a means of identifying where action may be needed in order to improve performance. A positive psychological contract typically supports a high level of [employee engagement](http://www.cipd.co.uk/knowledge/fundamentals/relations/engagement/factsheet/) (<http://www.cipd.co.uk/knowledge/fundamentals/relations/engagement/factsheet/>).

Further reading

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Books and reports

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This factsheet was last updated by Louisa Baczor.



Louisa Baczor: Research Adviser

Louisa joined the CIPD in 2015, specialising in research for the CIPD's Profession for the Future programme. This research explored what it means to be a professional, key drivers impacting the future of work, and how practitioners apply ethical principles when making people management decisions.

Louisa's current research is investigating the future of voice in the workplace, and how organisations can enable people to have a meaningful voice at work. Prior to this, she worked on workplace well-being, employability, and professional identity streams.

With an undergraduate degree in psychology, Louisa studied the changing roles of HR and impact on trust during a Master's at the University of Bath.

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