

# What is a psychological contract – and the benefits of employee engagement in creating one

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Creating a culture within your business that values the efforts and contributions of your employees is becoming increasingly important. An emphasis on employee engagement should, therefore, be at the heart of any business plan.

In recognising it as a priority, employers can go on to build effective 'psychological contracts' with their employees. The concept, which originated in the 1960s, refers to the shared expectations, beliefs and obligations between an employer and their employee and is based on a sense of trust and belief that the other is honouring the 'deal' between them.



If a business or organisation has an effective workplace culture in place which recognises, listens to and respects its employees, establishing a positive psychological contract should come easily. The state of any psychological contract will be influenced by a business or organisation's people management practices.

Unlike a written, formalised employment contract which may, in many cases, offer a limited and uncertain representation of a person's ongoing role within a business or organisation, a psychological contract is more fluid and evolving.

Such a contract will be built up over time through daily interactions – be that conversations, tone of voice, body language or even via implication or inference – between employees, their colleagues, managers and the business as a whole. Therefore, a good relationship between a manager and their employees, as well as those employees and their colleagues, is important in ensuring a positive contract.

If an employee feels a manager is not upholding their end of the deal, or vice versa, the mutual understanding on which the contract is based becomes unbalanced and the contract is breached.

It should come as no surprise then that communication is a key element of any psychological

contract (and indeed, workplace culture). An effective two-way dialogue between an employer and their employees is a necessary means of giving expression to employee 'voice' and helping to manage expectations on both sides.

These expectations should be managed from the beginning. It is important for employers to make clear to new recruits what they can expect from the job. Continuingly managing expectations throughout a person's career in the business, particularly when bad news is anticipated, will increase the chances of establishing a realistic psychological contract.

As with an effective workplace culture, a balanced psychological contract shows an employee they are valued and respected for the role they play within the business. This then leads to increased productivity and, thereby, a positive impact on business performance. Regular interaction and communication can also help to improve employee commitment to the business or organisation by allowing people to realise their potential and work towards a goal.

The benefits of a psychological contract rather than a standard, written, employment contract means employers can, to a degree, also base the contract on each individual employee. Employers should not underestimate the impact of individual differences; while many young people, being more likely to move between jobs and change careers, are not interested in the concept of a job for life, some employees still value job security highly.

Developing a psychological contract based on these differences can have huge benefits for both the employee and employer, once again highlighting the employee's value and role within the business and taking into consideration their goals and aims. By establishing these points, both can avoid setting unrealistic expectations on the other which, if misunderstood, would then breach the contract. If the 'terms' of the contract need amending because an employee or employer's circumstances have changed, this can be done easily via regular communication ensuring the contract is always up-to-date and the understanding remains mutual.

There are many reasons it is beneficial for a business to establish psychological contracts with its employees. In many organisations, it is now the case that managers can no longer control the business 'top down' and need to adopt a more 'bottom up' style. Crucial information, which management needs, is known by employees much sooner due to regular interactions with customers and suppliers.

As well as sharing information, employees also want to know their interests will be taken into account when important decisions are made; that they will be treated with respect and are more likely to be satisfied with their job if they are consulted about change.

Regularly monitoring employee attitudes can help identify any problems or where action may need to be taken in order to improve individual or group performance. In doing so, not only can managers keep up employee engagement, but also ensure the psychological contract between them remains balanced.