



THE ROLE OF PSYCHOLOGICAL CONTRACTS IN HUMAN RESOURCE MANAGEMENT AND ORGANIZATIONAL DEVELOPMENT

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ABSTRACT

The psychological contract has become an important concept in human resource management due to its influence on employee attitudes, behavior, and organizational outcomes. Unlike formal employment contracts, psychological contracts represent implicit expectations and obligations between employees and employers, emphasizing trust, loyalty, and long-term social exchange. This paper reviews existing literature on the nature and types of psychological contracts and examines their role in organizational environments. The study discusses transactional, relational, and balanced psychological contracts and highlights how cultural factors influence their formation and implementation. Particular attention is given to collectivist work environments, where relational psychological contracts may contribute to stronger employee commitment and long-term organizational relationships. Findings suggest that a well-developed psychological contract positively influences motivation, satisfaction, engagement, employee retention, and organizational effectiveness. The paper concludes that organizations should continuously invest in practices that support mutual trust and long-term employee-employer relationships to achieve sustainable organizational outcomes..

Introduction

The relationship between employers and employees extends beyond formal written agreements and legal obligations. Modern organizations increasingly recognize that successful employment relationships are influenced not only by contractual conditions but also by mutual expectations, perceptions, and social interactions. In this context, the concept of the psychological contract has gained significant attention in organizational and human resource management literature.

A psychological contract refers to the unwritten beliefs and expectations that exist between employees and organizations regarding mutual obligations and responsibilities. These expectations shape how employees perceive their relationship with the organization and influence their attitudes and behaviors in the workplace. While formal employment contracts define explicit terms such as salary, duties, and working conditions, psychological contracts operate at an informal level and are built on trust, fairness, and reciprocity.

The growing importance of psychological contracts can be explained by changes in organizational structures, workforce expectations, and competitive labor markets. Employees increasingly expect not only financial rewards but also career development opportunities, fair treatment, recognition, and meaningful work. At the same time, organizations seek commitment, loyalty, flexibility, and productive contributions from their workforce. Maintaining a balance between these expectations is essential for developing positive employment relationships and ensuring organizational effectiveness.

Previous studies have shown that psychological contracts influence employee motivation, satisfaction, commitment, and retention. Moreover, cultural factors may affect the type of psychological contract adopted within organizations. Therefore, understanding the role of psychological contracts and identifying practices that strengthen them have become important areas of study for both researchers and practitioners. This paper aims to review the theoretical foundations of psychological contracts, examine their types and influencing factors, and discuss organizational practices that support the development of strong and sustainable psychological relationships within the workplace.

Psychological contract

A psychological contract provides expectations between the individual and another party. This type of contract concentrates on social exchanges, relationships, and long-term orientation. The psychological contract is human-oriented and operates outside the main contracts; it is built on trust and loyalty. According to Rousseau (1989), a psychological contract could be both a written and an oral agreement, while it is usually a verbal agreement or expectations between parties. Schein (1980) and Guest (2004) concluded in their research that it is required for the psychological contract to cover both sides, the worker and the employer, due to the fact that it is a two-way exchange agreement. Expectations of the employees could be: equal and fair treatment and rewards, providing work and tasks that are related to competencies and abilities, and having opportunities for growth and development. While employer expect from staff commitment and contribution, loyalty and return. According to Alcover et al. (2016) psychological contract works efficiently when implementation of liabilities are hold consistent and for long time period by both parties employee and employer.

There are three main types of psychological contracts are provided in the literature (Mai et al., 2016; Bal et al., 2013; Alcover et al., 2016):

(1) *Transactional* – materialistic type of contract. The main factor of employees' motivation is rewards and clear expectations are provided by employer.

(2) *Relational* based on emotional and social relationships. This type of contract is usually long-term orientated.

(3) *Balanced* is an alliance of transactional and relational contracts.

According to Rosseau and Schalk (2000) the formation of a psychological contract can be influenced by factors such as culture and country economic conditions. In work culture where

informal relations are dominate the relational type of psychological contract is used. Arshad (2016) highlighted that relational and long-term oriented psychological contract type is preferred in countries with collectivist culture such as India, China, and Thailand, while individualistic culture countries (USA, UK, and Germany) are more favor from transactional psychological contract. Relational psychological contract increases engagement and performance level and decreases turnover rate, while transactional contract increases deviance behavior, and decreases commitment.

According to Thomas et al. (2003) organisations can influence and strength psychological contract by well-developed orientation and training programs as well as through professional recruitment process, that in turn assist workers in developing a positive attitude toward the company. One of the main functions of organisational HRM systems is to reform positive psychological contracts, which will lead to enhanced organizational performance, productivity and profitability (Suazo et al., 2009). Guest et al (1996) concluded that psychological contract is highly important for the organisation development as it has strong influence on employees' commitment to the company, employee satisfaction and higher employment relations. Psychological contract is an integral part of organizational culture and HR practices that works in creating trust between parties.

Psychological contract develop staff loyalty, helps organisation to motivate employees, increase engagement and commitment which in turn leads to talent retention in the company (Khoreva and Zalk 2016). Employee's contribution and return from employer should be equivalent. When employees are faced with honest and fair treatment in the organization, they will respond with positive expected behavior. According to Freese and Schalk (2008), violation of the psychological contract leads to a decrease in motivation, loss of interest, commitment, and satisfaction, and a change in employees' attitude, namely, workers start to value monetary return more and prioritize their own job interests over the interests of the company. These factors will influence on existence of deviant behavior and will have negative effect on company outcome (Mai et al., 2016).

The discussion suggests that organizations can strengthen the psychological contract by integrating supportive practices into their organizational culture and human resource management processes. A strong organizational culture and clearly communicated values should be introduced from the recruitment stage, enabling potential employees to develop positive perceptions and realistic expectations about the organization. Transparency during recruitment and selection is also essential, as employees should receive accurate information regarding organizational expectations and rewards, contributing to perceptions of honesty and fairness.

Research indicates that employees commonly expect equal treatment, fairness, and opportunities for growth and development. Therefore, organizations are encouraged to establish fair policies and provide equal opportunities for all employees regardless of position or background. Additionally, training and development programs should be implemented to support employees' professional advancement and reinforce mutual obligations between employers and employees.

Literature also emphasizes that employees expect tasks and responsibilities to align with their competencies and abilities. Consequently, organizations should create structured career development systems and clearly defined promotion pathways linked to employee

performance. Such practices can strengthen employee commitment and contribute to the establishment and maintenance of a positive psychological contract within the organization.

Based on the literature review, organizations operating in collectivist cultural environments are encouraged to adopt a relational and long-term oriented psychological contract. In cultures characterized by collectivist values, such as Uzbekistan, employees often place greater importance on interpersonal relationships, loyalty, mutual support, and long-term commitment rather than purely transactional exchanges. A relational psychological contract can contribute to higher employee engagement and performance while simultaneously reducing turnover intentions.

To support the development of a positive psychological contract, several practices are recommended. First, organizations should clearly identify and understand employees' expectations in order to align organizational practices with workforce needs. Second, communication processes should be developed and maintained as an ongoing dialogue that promotes openness and mutual understanding. Third, transparent organizational policies should be implemented to strengthen trust and perceptions of fairness. Finally, employees should be approached as partners in organizational success, emphasizing collaboration and participation rather than excessive control.

Organizations should continuously maintain and improve practices that support the development and strengthening of psychological contracts, as this can positively influence employee attitudes, commitment, and long-term organizational outcomes.

Conclusion

Psychological contracts play a significant role in shaping employment relationships and influencing organizational outcomes. As an informal agreement based on mutual expectations and obligations, the psychological contract contributes to the development of trust, commitment, and cooperation between employees and employers. Literature indicates that different forms of psychological contracts exist, and their effectiveness may vary depending on organizational and cultural contexts.

The review demonstrates that relational psychological contracts, particularly within collectivist environments, can strengthen employee engagement, improve performance, and reduce turnover intentions. Organizations can support positive psychological contracts through transparent communication, fair treatment, employee development opportunities, and human resource practices that encourage participation and long-term relationships.

At the same time, failure to meet employee expectations may result in psychological contract violations, leading to dissatisfaction, reduced commitment, and negative workplace behaviors. Therefore, organizations should actively manage employee expectations and continuously reinforce practices that support trust and reciprocity.

Overall, psychological contracts should be viewed as a strategic component of organizational culture and human resource management. Developing and maintaining strong psychological relationships within the workplace can contribute to employee well-being and sustainable organizational success.

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