

# The new psychological contract

*Why the implicit agreement between employer and employee must be rewritten to acknowledge the new reality of continuous, unrelenting change at work.*

**WHITEPAPER**



**A whitepaper describing the need for organisations and their leaders to establish a new psychological contract and incorporate new assumptions into the hiring and management of humans at work.**

## The concept

We talk a lot about how much change is happening at work, and we help by building awareness, helping those affected identify what needs to change, providing training courses to learn new systems and techniques; supporting them to define and document their new procedures.

Providing support for individual changes is important but it is not enough. I believe we need to define and support an extra change. This change is not listed in any portfolio, it is not an objective for any department or team, but it creates significant value. This change is the shift in the psychological contract employees have with their employer.

The Chartered Institute of Personnel and Development defines the psychological contract as ‘the perceptions of the two parties, employee and employer, on what their mutual obligations are towards each other’. ‘Perceptions’ is the key word here, as the obligations of a psychological contract are not written down in the formal employment contract, but are the unspoken assumptions and expectations developed through verbal promises and results of past actions.

Organisations that have positive psychological contracts with their staff are rewarded with high levels of employee commitment. This normally translates into a positive impact on performance. If this psychological contract is broken, the results can be a negative impact on job satisfaction, commitment, engagement and, therefore, performance.

## The old psychological contract is no longer fit for purpose

Since the arrival of computing power, employees and organisations operated under a broadly shared, if rarely stated, set of mutual expectations. Employees understood that change was a periodic feature of working life triggered by a restructure, a new system, an acquisition. During these moments they would be asked to bring extra effort and tolerance for uncertainty. In return, they expected that once the change had been absorbed, working life would return to a recognisable steady state. This was the logic of episodic change: a peak of disruption followed by a recovery to equilibrium. The psychological contract of what is owed and expected was built on this rhythm. It was a contract premised on the assumption that normality, once disturbed, would be restored.

That assumption is no longer true. The pace and volume of change in organisations has fundamentally and permanently altered the landscape within which people work. Change is no longer episodic. We can no longer achieve change via discrete projects governed by clear boundaries of scope and expected benefits. The impact of enterprise-wide systems, single sources of truth approaches to data and online delivery to global customers means a change in one area triggers multiple other changes.

Change is continuous, simultaneous, and externally driven accelerated by technological disruption, the rapid adoption of artificial intelligence, shifting client expectations, geopolitical instability, and internally driven by the relentless pressure to innovate, improve and adapt faster than other organisations in your industry.

Employees are not living through a particularly intense period of change from which they will eventually emerge. They are living in a new permanent condition, one in which the expectation of return to stability is not merely unrealistic but actively counterproductive, because it sustains a belief in a future state of consistency and certainty that is incompatible with the reality of modern organisational life.

## Old Contract

## New Contract

Episodic — peaks followed by recovery	Change	Continuous — always in motion
Return to stability	Employee goal	Frequent adaptation to new circumstances
Resistance	Mindset	Curiosity
Receive instructions	Ideas	Generate and champion ideas
Periodic announcements	Communication	Honest, ongoing, two-way dialogue
One-off training events	Development	In the moment access to coaching and support
Unacknowledged	Emotions	Actively recognised and supported
Speak up at your risk	Safety	Safe to be honest about difficulty
Defined by role and hierarchy	Authority	Influence, motivate and persuade
Imposed from above	Accountability	Shared between employees and organisation

**Figure 1 Comparison of old and new psychological contract**

The consequences of this mismatch are already visible. People who are applying an old model of change expect recovery after each disruption. They find themselves in a state of accumulating fatigue when recovery never comes. They are not failing to cope because they are insufficiently resilient. They are failing to cope because the coping framework they are applying was designed for an experience of peaks and plateaus. Emphasis was on creating excitement and motivation to fuel the energy needed for the high stress peaks of adapting to change, with the opportunity to rest and recover once normality had resumed.

We are now constantly working at peak, so the urgent task for organisations and those who lead within them is not to help people endure more change, but to help them fundamentally revise the mental model through which they understand what working life now requires of them and what, in return, they are entitled to demand.

## Continuous, overlapping change is the new reality

Failure to address this new reality is fuelling cynicism because promises of “chaos now, calm in the future” are no longer believable. Everyone is experiencing the constant chaos; no one has examples of calm.

Only this morning, I was advising an experienced senior leader not to lie by omission to his direct reports (who would then be expected to pass the lie onto their managers). The leader wanted to delay a



restructure until “things were clearer”. This is because there is a bigger strategic change taking place and he felt that once that change was underway, there would be greater certainty about how his changes fitted with this.

To convince him that he needed to act now, I used an analogy of two trains on parallel tracks. I explained that his change and the strategic change would sometimes cross in front of each other. His changes might need to slow sometimes to allow the CEO to implement organisation wide changes, and sometimes his changes would need to speed up and overtake the strategic changes to make sure they had created the conditions to make them work. Just because there are other changes on parallel tracks is no excuse not to change. The alternative is to make his train follow the other train, but that stops his team creating the best conditions for adapting to the strategic changes, as well as delaying innovations for customers.

In another call, I was dealing with the fallacy of “we will have more time to change in the future”.

I am writing this paper at the start of May, and this leader was trying to convince me that a delay of 4 months until after the summer was the right approach because things would be clearer after the summer break and people would have more time to adopt new responsibilities. I explained that her assumptions were wishful thinking. Her team are waiting to reorganise because their work has changed. They are not looking forward to the restructuring, but there have been so many rumours, they just want to get it over with. Asking them to wait until September will fuel their anxiety, and they do not believe they will have more time in the future. The leader was operating under the old assumption that sometime in the future the pace of change will slow down. By confronting her with the reality that the volume of changes planned for the start of September are high and more ideas are added to the list every week she recognised unpalatable truth. There is a new organisational reality and pretending it doesn't exist will not make it go away.

## The new psychological contract

For decades, the unspoken deal between an individual and their employer was built on a foundation of stability. In exchange for commitment and performance, organisations offered predictability through the description of a clear role, a reporting structure, and a reasonable expectation that tomorrow would look much like today. That contract, whether written or simply assumed, gave people a sense of certainty that underpinned their confidence, their identity at work, and their willingness to invest in their organisation's future.

That contract is now obsolete. Not because organisations have chosen to abandon it, but because the world they operate in no longer allows them to honour it. Geopolitical instability, technological disruption, the rise of artificial intelligence, and the relentless pressure to improve and adapt have created conditions in which constant, simultaneous change is not a phase to be managed, it is the permanent state of organisational life.

The change that individuals are therefore being asked to make is not about any single initiative, process, or system. It is a more fundamental shift: a renegotiation of the psychological contract itself. The new contract asks people to relinquish the expectation of certainty and replace it with something more honest which is an acceptance that change is continuous, that disruption is not an interruption to work but a feature of it, and that the organisation's most meaningful offering is no longer stability but the opportunity to grow, adapt, and remain relevant in a world that will not stand still.

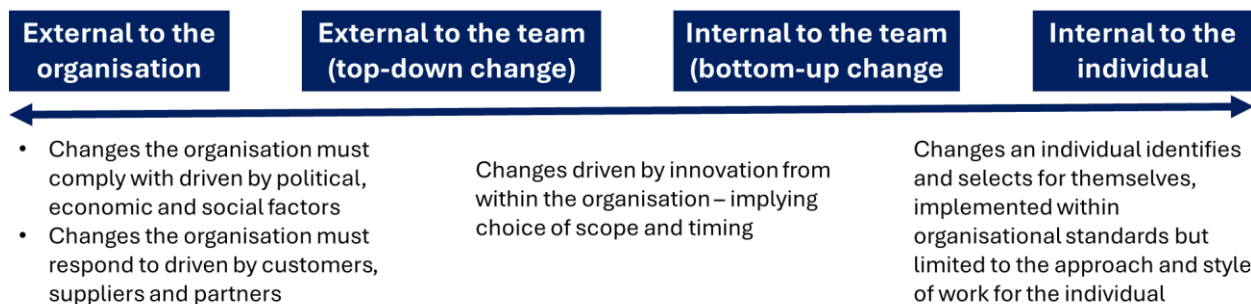
If we accept that disruption is a permanent feature of work, we can be honest about our responsibilities. Every role description should reflect that the job is to do the work in ways that exist today AND help design and create new work including new products and services and new ways of delivering them.

## Continuous change is driven internally and externally

It is important to distinguish between the different types of change that now converge simultaneously on individuals and organisations, because the new psychological contract must be adequate to all of them. At one end of the spectrum sit changes that are externally driven and largely beyond the organisation's control. Organisations have to accept and absorb developments in technology, shifts in regulations, changes to the competitive landscape, the evolution of client and customer expectations. These are changes in the slipstream of which both the organisation and its people find themselves. For example, nobody chose the current rate of AI adoption; it is a feature of the world that organisations must now respond to, and the response itself generates further change for everyone inside them.

Next are changes that the organisation has chosen including structural reorganisations, new strategic directions, the adoption of new operating models, the redesign of processes and roles. These are changes in response to external pressure but which the organisation has chosen to make, and which can damage staff engagement because they reduce choice. The psychological experience of these two types of change is different.

Externally driven change can generate a sense of shared exposure, a feeling that everyone, including senior leaders, is navigating the same uncertain terrain. Internally chosen change is more likely to generate a perception of asymmetry, a sense that change is being decided by some and absorbed by others, which, if not carefully managed, slides into the experience of imposition rather than shared endeavour.



**Figure 2 Types of change**

An increasingly important type of change are those generated from within teams in response to continuous improvement. An extension of these are the changes that individuals choose to make to how they work. Ideas, improvements and new ways of working developed by those closest to the work. These innovations are the most motivationally powerful, and the most consistently underdeveloped.

The new psychological contract must create genuine space for this type of change to flourish, not merely as an aspiration but as a structural reality supported by the investment of real time, attention, and recognition. An organisation that asks people to contribute ideas without providing the conditions, the skills, or the visibility of follow-through that make contribution feel worthwhile will find that the invitation, however sincerely meant, produces disillusionment rather than engagement.

## The impact of AI on the psychological contract

The accelerating adoption of artificial intelligence represents perhaps the most significant specific driver of the need to rewrite the psychological contract. Previous waves of technological change including the



introduction of personal computing, the rise of the internet, the shift to digital working required adaptation. The difference is they arrived with sufficient pace for organisations and their workforces to develop norms and expectations over time. The current wave of AI adoption, particularly the rapid deployment of generative and agentic AI tools, is arriving faster than the institutional and psychological infrastructure needed to absorb it.

I see parallels to the adoption of hybrid working in response to the Covid pandemic. Initially individuals and organisations moved quickly to change their norms of location-based working but the ramifications are still being felt today, as arguments rage over the ideal balance of location versus home based working.

The impact of AI adoption is a specific form of existential anxiety that sits beneath many people's experience of change at work. When the technology being introduced is perceived as capable of performing the tasks that give a person their professional identity and sense of value, the psychological stakes of change are dramatically higher than when the technology is a tool for doing existing work differently.

The question 'what is my contribution worth in a world where this can be done by a machine?' is not an irrational concern. It is a legitimate question about identity, purpose, and economic security that the old psychological contract was entirely unprepared to address.

Organisations that are navigating this well are doing so by making an explicit and credible case for the enduring value of human contribution. The most effective formulation is not defensive; it does not attempt to minimise the capabilities of AI or reassure people that their jobs are safe in ways that may not be sustainable.

Instead, it identifies with precision what humans do that AI does not:

- they build durable, trust-based relationships with clients and customers;
- they exercise ethical judgement in ambiguous situations;
- they innovate and originate ideas that emerge from experience and social understanding
- they translate the outputs of AI into the culture of organisations

The organisations that are winning on this framing are those that position AI as the mechanism for amplifying human contribution rather than as its replacement and that mean it, in the sense that their actual decisions about investment, development, and role design reflect this stated belief.

The psychological contract implication is significant. If the implicit agreement between employer and employee is to be credibly rewritten for the AI era, it must include an explicit organisational commitment to making the human case, not as a public relations gesture but as a genuine and evidenced strategic position. In the absence of this, the anxiety generated by AI adoption will continue to undermine the engagement and discretionary effort that organisations require more than ever as change accelerates.

## What the new contract requires of organisations

The old psychological contract was a largely passive arrangement, understood rather than articulated, sustained by the predictability of the environment rather than by deliberate design. The new contract must be deliberately and thoughtfully developed and regularly re-developed as new expectations about how we work emerge. It will not appear spontaneously from good intentions or from the adoption of better change management processes. It requires a set of specific organisational commitments that are maintained not only when conditions are favourable but especially when they are not.



## Communication

The first and most fundamental commitment is to honest communication. This means communicating not just what is changing but why, not just what has been decided but what remains uncertain, and not just what the organisation plans to do but what it is asking of its people and why it believes that ask is reasonable. The organisations that are managing continuous change most effectively are those that have resisted the temptation to protect people from complexity and have instead treated their workforces as capable of engaging with difficult realities, which, almost without exception, they are.

Leaders must have the courage to announce changes based on their current analysis and assumptions about business conditions whilst explaining that the changes are subject to change as more information emerges. I saw a CEO set up the conditions for his direct reports to behave like this a couple of years ago. He consistently told stories about how he had set out expected changes, only to have to change what he had said months later as pilots and prototypes and changing market conditions shifted what was needed. These constant references reset the norm from “changing our minds means we have failed to correctly analyse the situation” to “changing our minds is an important and valuable response to changing conditions”.

## Capability

The second commitment is to investment in capability. The skills required to navigate continuous change including emotional resilience, the ability to manage competing priorities, the capacity to communicate change to others, the confidence to generate and champion ideas do not develop spontaneously. They require deliberate cultivation, and this cultivation must be ongoing rather than episodic. A single training day, however well designed, is inadequate to a challenge that is permanent. The new contract requires organisations to build change capability as an enduring feature of how they develop their people, not as a response to specific transformation programmes.

This is a recognition that everyone must lead themselves and their colleagues through change at some time in their career and that like any skill, the ability to confidently and cleverly make change happen can be trained, it is not just a personality characteristic but a set of principles, procedures and techniques.

## Psychological safety

The third commitment is to psychological safety including the creation of conditions in which people can acknowledge difficulty, ask for help, and be honest about the limits of their capacity without fearing that doing so will disadvantage them. This is not a soft or marginal concern. Research consistently shows that psychological safety is one of the most powerful predictors of both individual wellbeing and collective performance in conditions of uncertainty. It is also one of the things that senior leaders most reliably destroy through their own behaviour when they signal, however unintentionally, that struggle is weakness and that the appropriate response to pressure is simply to try harder.

Leaders need courage to announce changes that are subject to change, and this courage comes from psychological safety within their peer group. This has an inherent difficulty when there is political manoeuvring to gain promotions and the rewards of more power.

## Recognition

The fourth commitment is to recognition of contribution to making change happen. In a continuous change environment, the traditional points of celebration that come from the end of a project, the successful implementation of a new system, the stabilisation after a restructure are not as frequent. In my own board meetings, I find it hard to identify the moment when something has completed because before it gets to a natural end point, it has often mutated into another change. For example, we have been changing our CRM at Capability for Change Limited for the last 18 months. This single project has



developed over time, moving from a “lift and shift” of data from one platform to another to a re-imagining of responsibilities, processes and now we are looking at a more strategic view of our customer journey. Finding the moments when something has created a genuine outcome that we can celebrate, before it becomes the start of another piece of work is a skill but one worth developing. Without this ability, we lose these achievements amongst the busyness of day-to-day work.

The motivational cost of this is significant. Organisations that actively and visibly celebrate the effort and progress of their people, even in the absence of definitive completion, are performing a function that is both psychologically necessary and practically consequential. Those that do not will find the depletion of discretionary effort accumulates into a structural capability problem that no subsequent intervention can easily reverse.

## The time to act is now

This paper has set out the argument for a reworking of the psychological contract which will be welcomed by many at work. Whenever I debate this subject in my change management training courses, there is overwhelming desire for these conversations to take place and for leaders to publicly acknowledge that what organisations expect from their workers has shifted.

The time for action is now. I run practical workshops to help define these changes and to enable all those impacted to co-design the plan to make it happen. I have proven it is possible to reset the culture of an organisation from one that reacts to change to one that proactively and continuously innovates.

Come and [talk to me](#) about your objectives, and let's build your action plan together.