

# LINKAGE BETWEEN PSYCHOLOGICAL CONTRACT AND EMPLOYEE RETENTION, PERFORMANCE AND PRODUCTIVITY IN ORGANIZATIONS IN NIGERIA

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## **Abstract**

The study examines the linkage between psychological contract and employees' retention, performance and productivity in organizations in Nigeria. It studies the interplay between psychological contract and the variables with a view to understanding their interactions and impacts in organizations. The methodology is theoretical and analytical with the use of secondary resource materials. The paper reveals that global competition has altered business environment, hence organizations are compelled to devise improved methods of survival and performance by creating healthy and progressive relationship with their employees. The paper further averred that employees' behaviours are susceptible to the healthy relationship with their management. Consequently, a breach of psychological contract hinders employees' performance and ignites employees' propensity to quit the organization. This, to a considerable extent, affects organizational output. The study therefore, proposes that employee/employer relationship can be strengthened by clearly stating expectations during recruitment and induction stages of employment, initiating organizational culture that promotes transparency on policies and procedures that effect employees and creating a humane work environment that accommodates cooperation, consensus and employees' participation. This is necessary if organizations need to maintain their vibrant and resourceful workforce that will competitively drive organizational goals in this globalized economy and society.

**Keywords:** Psychological contract, Employer, Employee retention, Performance, Productivity, Organization, Nigeria.

## **Introduction**

The global competition which has altered business environment has engineered the need for organizations to devise new ways to survive, enhance performance and ensure healthy and progressive relationships between employers and their employees. Rousseau (2011) explained that the increase in global competition has intensified economic fluctuations which have created an aura of uncertainty for employers and their employees. The changing dynamics of organizations make it more complex to motivate and retain a dynamic and profitable workforce.

One of the solutions for organizations to effectively and efficiently respond to these changes is to create a positive relationship between employers and employees (Curwen, 2013), and embrace the use of human resource management practices and develop a psychological contract to improve on the corporate performance and retention of their critical employees that will enhance productivity (Waiganjo and Ng'ethe, 2012). This is because

employees are considered as one of the cardinal assets of organizational success. Creating a solid working relationship can stamp out detrimental turnover costs, retain vibrant talent and encourage efficient, productive employees that will be committed to the business goals and objectives (Curwen, 2013).

Rousseau (2004) posits that modern organizations cannot succeed in this knowledge-based production era unless the people under their employment agree to contribute to achieving organization's mission and survival. Thus, it is argued by scholars that workers' qualities, attitudes and behaviour in the workplace, together with other factors such as psychological contract, play a significant role in determining an organization's overall performance and employee retention (Stoner, Freeman and Gilbert, 2002). However, it has been observed that a switch in employees' behaviour in workplace is attributed to a breach of psychological contract, and this has, in most cases, snowballed into detrimental consequences resulting to decrease in performance, exit of resourceful employees and the retardation of productivity in organizations. Typically, in today's business environment that is characterized by uncertainty, it is pertinent for management to develop stable and effective relationship with their employees considering the adverse implication of a strained working relationship in organizations. It is against this backdrop, that this paper examines the linkage between psychological contract and employee retention, performance and productivity in organizations. It explores this linkage with a view to verifying the dynamics of psychological contract in regulating workplace interactions, especially in Nigeria. In this premise, the paper anchors its discussion on the following sections:

- (a) Historical overview of psychological contract;
- (b) Types of psychological contract and its interplay on employees' behaviour in workplace; and
- (a) Impact of psychological contract in a work environment vis-à-vis employee retention, performance, and productivity in organizations.

This article has been written on the basis of secondary data. The secondary data were derived majorly from library research.

### **Historical Overview of Psychological Contract**

Psychological contract is a concept that has gained interest as a construct relevant for understanding and managing contemporary employment relationship in organizations (De Vos, Annelies and Dirk, 2006). The concept of psychological contract was conceived by Argyris in 1960, but not until the mid 1980s and 1990s following the advent of corporate downsizing, mergers, and takeovers that the concept was explored as a theory in explaining its impact on employee behaviour in the workplace (Cyril, 2013). Psychological contract is defined by Mueller (2009) as an implicit agreement between the employee and employer about how each expects to be treated based on the culture, language or behaviour used in the workplace. She noted that it is these expectations that guide behaviour and how events are interpreted. These expectations arise from the perception of promises made by the employer to the employee (Freese and Schalk, 2008).

Rousseau (1995) stressed that psychological contract consists of individual beliefs regarding terms of an exchange agreement between individuals and their organization. Similarly, Guest (2007) asserts that psychological contract is concerned with the perception of both parties to the employment relationship: organization and individual, of the reciprocal promises and obligations implied in that relationship. Armstrong (2012) explained that psychological contract is a system of beliefs that encompasses the actions employees believe

are expected in return from the employer, and, reciprocally, the actions employers believe are expected of them and what response they expect in return from their employees. In the views of Knights and Kennedy (2005), psychological contract is a set of individual beliefs regarding reciprocal obligations between the employee and the organization. Some of these are recorded in the form of a written formal contract; largely they are implied and not openly discussed.

John (2013) sees psychological contract as the expectations between employee and employer and of what their mutual obligations are to each other. He contends that many of these obligations will be informal and imprecise: they may be inferred from actions or from what has happened in the past, as well as from statements made by the employer during the recruitment process or in performance appraisals. He further added that some of these obligations may be seen as 'promises' and others as 'expectations'. He concluded that both the promises and expectations are considered by the employee to be part of the relationship with the employer. Turnley and Feldman (2000) explained that psychological contract emerges when individual employees believe that their employers have promised to provide them with certain rewards in return for their contributions in the organization. Shields (2007) sees the psychological contract as filling in the gaps left by the formal legal contract of employment to constitute a more complete account of the entire range of mutual obligations between employer and employee.

In the contribution of Conway and Briner (2005), they argued that the concept of psychological contract is used to explain behaviour through considering the extent to which the employee believes that the employer has kept the promises the employee perceives were made to him. They noted that as in any relationship, if promises are kept, then satisfaction and a desire to remain in the relationship are likely consequences. If, on the other hand, promises are broken, negative emotions and the urge to withdraw in that relationship may follow. Schein (1965) cited in Armstrong (2005:299) emphasized the importance of psychological contract as he suggested that the extent to which employees work effectively and remain committed to the organization depends on:

- the degree to which their own expectations of what the organization will provide them and what they owe the organization in return match that organization's expectations of what it will give and get in return; and
- the nature of what is actually to be exchanged (assuming there is some agreement)- money in exchange for time at work; social need satisfaction and security in exchange for hard work and loyalty; opportunities for self-actualization and challenging work in exchange for high productivity, high-quality work, and creative effort in the service of organizational goals; or various combinations of these and other things.

John (2013) made a distinction between psychological contract and the legal contract of employment. He posits that psychological contract focuses on the reality of the situation as perceived by the employee and employer, and may be more influential than the formal contract in affecting how employees behave from day to day. He noted that it is the psychological contract that effectively tells employees what they are required to do in order to meet their side of the bargain and what, in return, they can expect from their job. On the other hand, John (2013) stressed that the legal contract of employment offers only a limited and uncertain representation of the reality of the employment relationship; which the employee may have contributed little to its terms beyond accepting them.

Armstrong (2012:408) pointed out the employment relationship aspects that are covered by psychological contract. From the perspective of the employee these are; how they are treated in terms of fairness, equity and consistency, security of employment, scope to

demonstrate competence, career expectations and the opportunity to develop skills, involvement and influence and trust in the management of the organization to keep their promises. From the employer's point of view, the psychological contract covers such aspects of employment relationship as "competence, effort, compliance, commitment and loyalty". Grobler, Warnich, Carrel, Elbert and Hartfield (2011) conclude that psychological contract fulfils two main objectives; to manage the employment relationship, and to manage expectations arising from the employment relationship.

The above discourse presents key features which are prominent in psychological contract. Conway and Briner (2005:2) outlined the features of psychological contract as follows:

- the psychological contract is based on beliefs or perceptions. It follows that different individuals (even in the same organization) will have potentially different conceptions of what the psychological contract actually entails;
- the psychological contract is implicit rather than explicit. It is thought to be inferred from the promises made or implied by the organization or the employee. Therefore the parties are thought to draw conclusions as to the existence and substance of various promises and obligations based on the observed behaviour of the other party;
- the psychological contract is based on perceived agreement rather than an actual agreement. This suggests the possibility that employees and managers will often disagree as to the content of the psychological contract;
- the psychological contract is based on exchange and is therefore founded on the principle of reciprocity. The implied promises to behave in a certain way at work, for example, are conditional on the other party providing something as part of the deal;
- the psychological contract is ongoing and evolving. Unlike a written legal contract that might be set for a specific period, the terms of the psychological contract are (potentially) being continually re-written as the parties interact and mutual expectations, obligations and promises are generated and implied. This implies that psychological contract is established when there is mutual satisfaction on the part of both employees and employer vis-s-vis their expectations (Dipankar, 2013);
- psychological contract is a central determinant of work behaviour which specifies the dynamics of employment relationship (Dipankar, 2013); and
- psychological contract may also be categorized based upon context of individual and group (Dipankar, 2013).

The general overview of the concept and features of psychological contract as examined above brings to the fore some underlying processes regarding expectations within the employee-employer relationship. The next discourse will be on the types of psychological contract and its interplay on employees' behaviour in workplace.

### **Types of Psychological Contract and its Interplay on Employees' Behaviour in the Workplace**

The dynamics and varying nature of psychological contract has provided scholars the leverage to categorize the concept into two distinct kinds of contract that define the employee and employer relationship in the workplace. These are: Transactional and relational contracts (Shairo, 2000; Rousseau, 2004; Curwen, 2013).

**Transactional Contract** This type of contract refers to specific and monetizable exchanges over a limited period of time (Waiganjo and Ng'ethe, 2012). Transactional contract indicates that the employee is required to perform only a fixed set of duties and to execute that which is required by the employer. In this contract, the employer is obliged to offer adequate

compensation to employee in exchange of his duties. The employer may or may not offer any training and development to the employee. The employee has no obligations to remain with the organization in the long run and would be committed to work only for a limited period of time, which the employer may not guarantee future employment beyond the limited period of time agreed upon (Dipankar, 2013). Rousseau (2004) argued that transactional psychological contracts include such terms as narrow duties and a limited short term employment. He added that employees with transactional contract tend to adhere to its specific terms and to seek employment elsewhere when conditions change or when employers fail to abide by their agreement.

**Relational Contract** Curwen (2013) posits that relational type of contract is relationship contract that is built on utmost trust, implicit emotional attachment, and embraces long-term employment. Dipankar (2013) explained that in relational contract, the employee is obligated to remain in employment with the organization and carry out his duties as specified, exhibits loyalty to support the aims and objectives of the organization; while the employer fulfills its part of the obligation by ensuring the well-being of the employees and their families. Waiganjo and Ng'ethe (2012) observed that employees with a relational psychological contract are likely to be particularly upset when it is violated, but the commitment embedded in the contract often causes employees to opt for remedies that will maintain the relationship with the employer. They noted that failure to remedy the situation typically leads to turnover or if the employee remains, his contribution to the organization will be reduced and this may further lead to the erosion of the employment relationship. Rousseau (2004) stresses that employees favour organizations who offer them relational psychological contract as opposed to the more limited transactional type; employers are likely to offer relational contracts to particularly valued employees than to employees who are non-performers in the organization.

The above discourse succinctly explains the types of psychological contract and its interplay on employees' behaviour in the workplace. This exposes the need for organizations to explore the different kinds of contracts that will provide the understanding of their employees' interest and offer the most suitable psychological contract content that will endear the support and commitment of employees to remain with the organization. This is because the kind of psychological contract that organizations build with the employees will constitute a vital determinant on business performance and stability and the retention of talented employees in the organization.

### **Impact of Psychological Contract on Work Environment vis-à-vis Employee Retention, Performance, and Productivity in Organizations**

Human resource practitioners have come in terms with the reality that employment relationship in contemporary organizations is undergoing fundamental changes which have implications for the attraction, motivation, retention and performance of talented employees in the organizations (Turnley and Feldman, 2000; Roehling, Cavanaugh, Moynihan and Bosewell, 2000; and Horwitz, Heng and Quazi, 2003). These changes are attributed to the emergence of international competition and globalization of businesses which have prompted organizations to ensure flexibility in their business operational strategies in order to enhance performance, boost productivity and retain the cherished talents in the organization. This is because in this business environment, the retention of critical employees in the organization is very crucial for the growth and survival of the organization.

Rousseau (1996) argued that for retention management to be effective, the creation of an optimal portfolio of human resource practices is not sufficient. He noted that managing employees' expectations is important in order to create a deal that is mutually understood by

both parties; as work in organizations entails an exchange relationship between the employee and the organization (Lishin and Srilatha, 2011).

Retention management addresses the type of organizational inducements and human resource strategies that are effective in mitigating voluntary employee turnover, while the psychological contract focuses on employees' subjective interpretation and evaluation of inducements and how these inducements affect their intention to stay with the organization (De Vos et al., 2006). De Vos et al., (2006) further added that retention practices can only be successful if the practices are aligned with what the employees value and what they take into account when deciding to stay with or leave the organization. This is because the subjective interpretation of retention factors by employees will impact on the effectiveness of retention programmes and policies designed by the organization. Turnley and Feldman (1998) stress that employees evaluate the inducements they receive from the organization in view of previously made promises and that this evaluation leads to a feeling of psychological contract fulfillment or breach. A feeling of contract breach has negative consequence on employees' willingness to continue to contribute to achieving the aims and objectives of the organization and their intentions to remain with the organization (Coyle-Shapiro, 2000; Turnley and Feldman, 2000). Robinson and Rousseau (1994) cited in Johansen and Von (2012) posit that the psychological contract fulfillment occurs when employees perceive that their employer has fulfilled promised obligations. In contrast, Johansen and Von (2012) maintain that psychological contract breach occurs when employees perceive a discrepancy between what was promised and what was fulfilled.

A psychological contract breach brings about distrust, job dissatisfaction, low organizational citizenship activity and high turnover (Seong-Do, Ki-Ju, and Kyoungun, 2009). In the views of Turnley and Feldman (1999), the intent to quit by an employee would positively relate to the breach of psychological contract. Thus, negative event for employees can de-motivate their performance and increase their tendency to leave the organization. This implies that as much as employees' psychological contract is fulfilled, the higher employees' commitment and intention to remain with such organization.

Gail (2013) asserts that an employee's feelings of self-worth may rest heavily on the psychological contract between the employee and the organization. He noted that if an organization breaches the psychological contract with employees, the employees may be left feeling disappointed which will affect their motivation on the job that may lead to their quitting the organization. Scholars have argued that a contract breach has a positive correlation with turnover intentions, turnover, and other employee attitudes and behaviour including trust, job satisfaction, organizational commitment and organizational citizenship behaviour (Conway and Briner, 2005). Similarly, Mueller (2009) contends that in psychological contract, when one party - usually the employer - is perceived to have violated the contract, the employee is likely to be less committed to the organization. The result is a negative impact on performance, productivity and employee retention. On the other hand, organizations that have a significant effort to cultivate a strong organizational culture and psychological contract can reap the benefits of retaining talented employees in the organization and enhancing productivity (Mueller, 2009).

In an employment relationship, a balanced psychological contract is necessary for a continuous and harmonious relationship between the employee and the organization. However, the violation of the psychological contract can signal to the participants that the parties no longer share common set of values or goals (Armstrong, 2005). This strained relationship may affect the performance and retention of the employee in the organization, as he will consider the breach in the contract as distrust on the management.

Maya (2008) concluded that there are obvious links between the nature of psychological contract and the individual's commitment to the organization. He explained that those with contracts that are predominantly transactional in nature are unlikely to have high levels of commitment to the organization; hence such employees are prone to turnover in the organization; while employees with relational contracts may show much higher levels of commitment. This implies that employees with relational contract stay longer with the organization than those with transactional contracts. This suggests that in order for organizations to maintain a psychological contract and retain top talented employees in the organization, there is the need for management to commit themselves to effective communication in decision processes between the employees and management. This is because, a strong culture and effective psychological contract that are aligned with the vision and strategy of the organization can elicit the support, performance and retention of talented employees in the organization (Mueller, 2009).

The overriding implication in this context is that when management trust is eroded, it will inflame employees' passion resulting to exhibition of "goal blockade" with eventual effect on retention, performance and productivity. Conversely, when employment relationship is built on trust and upheld, it will stir employees' sense of responsibility to innovate and contribute to the growth of the organization. This emphasizes the need for the understanding of the psychological contract that will incite a faithful, fruitful and fulfilled work team.

### **Conclusion**

The paper mirrored on the linkage between psychological contract and employee retention, performance and productivity in organizations. It examines the interactions and impact of psychological contract in work environment. The study showcased the significant implication of the fulfillment of psychological contract in the employment relationship vis-à-vis retention of critical employees, improved performance and productivity in contemporary organizations. The study reveals that an employee psychological contract breach constitutes a negative impact on employee behaviour in the workplace which may result to decreased performance, erosion of productivity and eventual employee turnover in the organization; hence the need to frame a workable relationship that will encourage employees' acceptance and propel them to be committed to the organizational goals and objectives.

### **Recommendations**

To achieve the above objectives, the study proposes that employee/employer relationship can be overcome by clearly expressing expectations during recruitment and induction stages of employment; initiating organizational culture that promotes transparency on policies and procedures that affect employees; and creating a humane work environment that accommodates cooperation, consensus and employees' participation. This is necessary to ensure a healthy employment relationship that will ignite employees' emotional stability and fulfillment of expectations in the workplace, and create a feeling of obligation for the employees to remain with the organization and contribute to the overall success of the organizations.

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