

PSYCHOLOGICAL CONTRACT AND EMPLOYEE RETENTION: EVIDENCE FROM UYI GRAND HOTEL, BENIN CITY, EDO STATE

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Abstract

The breach of psychological contract often results in a decline in employees' willingness to contribute to and intention to stay in an organization and, employee turnover is an endemic issue in hospitality industry worldwide. Psychological contract and employee retention has been subjects of discourse among social and management scientists from a wide range of disciplines in the last two decades. But unfortunately, very insufficient number of studies in these areas has been conducted in Nigeria and none has been carried out in hospitality industry. This study was undertaken to fill this obvious research gap. A descriptive method was adopted and data was collected via a survey of 53 respondents. Data collected were analyzed using correlation and linear regression analysis with the aid of Statistical Package for Social Sciences (SPSS) version 21. The results of the study showed that there is a significant relationship between psychological contract and employee retention. The study also revealed that psychological contract, positively and significantly, influences employee retention in Uyi Grand Hotel, Benin City, Edo State. Requisite conclusion and recommendations were provided in the light of theoretical and empirical findings.



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Keywords: *psychological contract; employee retention; trust; breach; expectations.*

JEL Classification: J00, J21

Introduction

In today's competitive environment, the success of any organization depends upon the retention of key employees, who happen to be the most vital and dynamic resource of any organization. To a great extent, customer satisfaction, organizational performance in terms of increased sales, satisfied employees, effective succession planning etc., is dependent upon the ability of the organization to retain the best employees in any organization. Consequently, the biggest challenge that organizations are facing today is not only managing its human resource but also retaining them [Okolie & Umemezia, 2017]. Organizations through creating a positive employment relationship can retain skilled employees, reduce costs associated with employee turnover and make employees efficient, productive and committed to the overall organizational goals [Misganu & Zewdie, 2018]. Psychological contract offers a framework for monitoring employee's attitudes and priorities on those dimensions that can be of great influence on performance. Organization that wish to succeed and realize their overall organizational goals need to understand what employees expect from the organization and must pay attention on fulfilling their expectations to fulfil organization's side of the contract [Festing & Schafer, 2014].

Psychological contract expresses personal promises and obligations among the employees arising from reciprocal relationship between the employees and the organization [Rousseau, 2001]. There is always a written contract between the employer and employee but psychological contract exists over and above this written contract. The notion of psychological contract entails that employees have variety of expectations from their organization and these expectations are implicit in nature and do not have any legal consequences. Nevertheless, psychological contract breach leads to reduced job satisfaction, work engagement as well as increased employee turnover intention [Agarwal & Bhargava, 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



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and behaviour in the workplace, together with psychological contract, play a significant role in determining an organization's overall performance and employee retention [Stoner *et al.*, 2002]. It is against this backdrop that this study examines the relationship between psychological contract and employee retention in Uyi Grand Hotel, Benin city, Edo State.

Statement of Problem

The employment relationship is undergoing fundamental changes that have implications for the attraction, motivation and retention of talented employees. Growing international competition, de-regularization and globalization of markets require organizations to become flexible in order to increase their productivity. This has reduced the opportunity for future promotion, earnings and job security at all levels in modern organizations. Besides, hotel employees have been perceived as the lowest paid among the employees in other industries, due to low skills and lack of union support [Dawson & Abbott, 2011]. This poses challenges on the state of psychological contract in existence in hospitality industry and attempts to craft a favourable employment relationship in hospitality industry hinged on positive psychological contract necessary for skills retention. However, there is no previous study that examined the relationship between psychological contract and employee retention in hospitality industry in Nigeria. This study therefore seeks to fill this knowledge gap by examining the relationship between psychological contract and employee retention in Uyi Grand Hotel, Benin City, Edo State.

The Concept of Psychological Contract

The concept of psychological contract was conceived by Argyris in 1960, but not until the mid 1980s 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 & Schalk, 2008; Malik & Khalid, 2016; Silva & Weerasinghe, 2016]. Armstrong (2012) explained that psychological contract is a system of beliefs that encompasses the actions employees



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believe are expected in return from the employer, and, reciprocally, the actions employers believe are expected from them and what response they expect in return from their employees. Rousseau (2004) posits that psychological contract consists of individual belief regarding terms of an exchange agreement between individuals and their organization.

McInnis and Meyer (2008) suggest that psychological contract is formed when employers and employees establish new deals based on the various needs and wants of both parties. Rousseau (1996) affirms that the psychological contract is formed from the recruitment stage of the employee's work-life to retirement or resignation. A psychological contract breach brings about distrust, job dissatisfaction, low organizational citizenship activity and high turnover in an organization [Milanovic, Dokic & Dordevic, 2008], the intention to quit by an employee would positively relate to the breach of psychological contract. Thus, negative event for employees can demotivate their performance and increase their tendency to leave the organization. This implies that as much as employee's psychological contract is fulfilled, the higher employees' commitment and intention to remain with such organization [Nwokocho, 2015]. Psychological contracts are broken as a result of organizations' commitment to their own goals and values, forgetting the needs and expectations of the employees [Rousseau, 2011; Dhanpat & Parumasur, 2014]. Therefore, psychological contract is breach when obligations are not fulfilled primarily on what is owed to employees by employers. Morrison and Robinson (1997) and Wang, Li, Wang and Gao (2017) support this in defining psychological contract breach as the employee perceptions that the organization has failed to meet its obligations. In the view of Conway and Briber (2005), psychological contract is violated where employees feel that employers have not fulfilled promises or met their expectations. It is breach by failure of those in power or management to pay a fair rate, unfair performance appraisal or lack of respect for employees. In contrast, Rousseau (1995) argues that the psychological contract can be breach when circumstances beyond control impedes fulfilment of obligations.

Employee Retention

Employee retention involves taking measures to encourage employees to remain in the organization for the maximum period of time [Griffeth & Hom, 2001]. Hiring skilled employees is essential for an employer to attain competitive advantages, but retention is even more important and challenging than hiring. In the view of Das and Bauah (2013), retention is a process in which the employees are motivated to



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continue in a working relationship with the organization for a long period of time or until the end of the project. However, employees are difficult to retain because they give more importance for their career development rather than achievement of organizational goals and being loyal to the organization which results in increased rates of voluntary turnover [Weralupitiya & Yasodara, 2016]. Not surprisingly, then, retention management has become a popular concept in the HRM literature. It is referred to as the portfolio of HR practices that organization develop to reduce voluntary turnover rates [Steel, 2002]. Yang, Wan and Fu (2012) argues that for retention management to be effective, it is not only important to create an optimal portfolio of HR practices, but also to manage employees' perceptions regarding what their organization has promised them in return for their loyalty and commitment. Thus, while retention management addressed the type of organizational inducements and HR practices that are effective in reducing voluntary employee turnover, the psychological contract focuses on employees' subjective interpretations of those promised inducement and relationship with employee outcomes including intentions to stay. Raja, Johns and Ntalianis (2004) argue that there are many reasons why employees leave an organization. These include lack of challenge opportunities, lack of career advancement opportunities, and lack of recognition, inadequate team work and flexible work schedules.

Psychological Contract and Employee Retention

According to Ulrich (1998), perceived future opportunities from employers as well as perceived extent to which employees' expectations are met are key factors for employee retention. Rousseau (2001); Kudzanayi, Noreen & Kudakwashe (2016) argue that the psychological contract is a concept that has gained much interest as a tool for understanding and managing the employment relationship between employers and employees and plays a significant role in employers' decisions to stay or leave. The nature of the psychological contract influences employees' subjective interpretations and evaluations of their intention to stay with the organization. Gail (2013) posits that an employee's feelings of self-worth may rest heavily on the psychological contract between the employee and the organization. He further noted that if an organization breaches the psychological contract with employees, the employees may be left feeling disappointed which affects their motivation on the job that may lead to their quitting the organization. The psychological contract breach impacts negatively on employees' willingness to contribute to the organization and



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his or her desire to stay [Johnsoen & Von, 2012]. 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 the negative impact on performance, productivity and employee retention. On the other hand, the organization that cultivates strong organizational culture and psychological contract can reap the benefits of retaining talented employees in the organization and enhancing productivity [Mueller, 2009].

Guest and Conway (2002) assert that a positive psychological contract induces commitment, job satisfaction and willingness to stay with the organization by the employees. Denton (2000) cited in Okolie and Umemezia (2017) is of the view that employees who are happy and satisfied with their jobs tend to be more dedicated and would always put in more efforts to improve their organizational customer's satisfaction. They are also more likely to remain with the organization for a considerable length of time. It is not only important to carefully determine the persons that would be employed to work in an organization; the organization should also of necessity adopt strategies of how to retain them [Das & Baruah, 2013]. Milanovic *et al.* (2018) stated 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. Mueller (2009); Kudzanayi *et al.* (2016); Silva and Weerasinghe (2016); Weralupitiya and Yosadara (2016) in their studies found that psychological contract have a positive and significant relationship with employee retention. Therefore, positive psychological contract catalyses employee retention and negative psychological contract contribute to poor retention.

Theoretical Framework

This study is based on Wayne Smith (1977) Social Exchange Theory and Shore, Tetrick, Lynch and Barksdale's (2006) Resources Conservation Theory. According to the social exchange theory, the central ideas are that people's behaviour at work is driven by certain needs which in turn affect their performance, and employees' belief in being treated fairly and given what they deserves motivates them to give more of themselves to the benefit of the organization and other employee. The needs for food, clothing, shelter and security are regarded as the most paramount for ensuring a person's survival. These and greater needs lead to the setting of goals by both, the employee and the employer [Gruneberg, 1976]. He further noted that expectations differ from among employers and their employees based on different factors.



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Employees, as a fundamental part of organizational system have expectations of what they aspire to gain from performing their jobs and what they anticipate that their jobs will provide, while employers expectations is profit maximization through organizational goal achievement. Hussin (2011) argued that the extent to which an employee's expectations are satisfied shows his or her emotional state which has a huge role to play in forming his or her behaviour in the workplace – whether positive or negative as stated by Kidwell and Martin (2005) and Hussin (2011). Positive employee behaviour is that which promotes the organization's well-being and performance, while negative behaviour poses a threat to the organization's growth and success. Therefore, social exchange provides an insight on how a breach of psychological contract may lead to negative reaction and if fulfilled may lead to position reaction.

According to the resources conservation theory, when the employees' psychological contract has not been fulfilled, namely the use of employee's economic resources and emotional resources have not been fairly compensated, then the employees' loss of their own resources will dent their loyalty and sense of identity to the organization, and weaken the enthusiasm to participate in the activities of the organization. If there are violations of the employees' transactional psychological contract, which will cause the loss of economic resources, and will force the employee to escape stress by obtaining new economic resources, coming to a new organization to obtain new economic resources will become a rational choice of employees, thus reducing their ongoing commitment to the organization. The fulfilment of the relational psychological contract, namely, the emotional resources, can reduce employees' physiological and psychological pressure, stimulate their working psychology and job involvement, and participate more in the organization's social interaction, produce more emotional dependence on organization [Shore, *et al.*, 2006]. At the same time, it will enhance employees' sense of responsibility to the organization, thus strengthen their affective commitment and normative commitment to the organization [Wang *et al.*, 2017]. The relevance of these theories to the research study is based on their ability to justify that there is a correlation between psychological contract and employee retention. In line with the literature review, the following objectives and hypotheses were formulated for the study.

Objectives of the Study:

- i. To examine the relationship between psychological contract and employee retention in Uyi Grand Hotel, Benin City.



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ii. To assess the effect of psychological contract and employee retention in Uyi Grand Hotel, Benin City.

Hypotheses of the Study:

H₁: There is no significant relationship between psychological contract and employee retention in Uyi Grand Hotel, Benin City.

H₂: Psychological contract does not have a significant effect on employee retention in Uyi Grand Hotel, Benin City.

Methodology

A descriptive method was adopted and data was collected via a survey of 53 respondents from Uyi Grand Hotel, Benin City using non-probabilistic sampling techniques comprising of purposeful and convenience techniques. The research instrument for the study was a structured questionnaire. This was a modified form of the instrument used by Dhanpat and Parumasur (2014) and Milanovic *et al.* (2018). This was necessary to better address the new respondents in a different environment. Out of the 53 copies of questionnaire administered, 47 were retrieved and analyzed, giving us a response rate of 88.7%. Out of the 47 respondents, 29 were male and 18 were female employees. Data collected were analyzed using correlation and linear regression analysis with the aid of Statistical Package for Social Science (SPSS) version 21.

Data Analysis

A pilot study to determine the level of reliability of the instrument was carried out on 20 employees who were part of the study within a time interval of two weeks. Cronbach Alpha method was used to establish the internal consistency of the instrument as shown in the table below.

Table 1. Reliability Statistics of Variables

Variable	No. of Items	Alpha Reliabilities
Psychological contract	8	0.758
Employee retention	6	0.803

The results yield a coefficient of 0.758 and 0.803, which satisfied the general recommended level of 0.70 for research indicators [Cronbach, 1951]. Also, the

questionnaire was validated by experts in social and management sciences. Hence, researcher's satisfied both reliability and validity of the variables.

Table 2. Relationship between Psychological Contract and Employee Retention

Variable		Psychological contract	Employee retention
Psychological contract	Pearson correlation	1	0.713**
	Sig. (2-tailed)		0.000
	N	47	47
Employee retention	Pearson correlation	0.713**	1
	Sig. (2-tailed)	0.000	
	N	47	47

** Correlation is significant at 0.01 levels (2 tailed)

Source: Field survey (2019)

Table 2 shows the correlation between psychological contract and employee retention. There exists a significant positive high correlation between psychological contract and employee retention ($r = 0.713$, $N = 47$, $p < 0.01$). This implies that psychological contract has a strong and positive relationship with employee retention in Uyi Grand Hotel, Benin City, Edo State. Therefore, the null hypothesis is rejected.

Linear Regress Analysis

Table 3. Model Summary^b

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	0.596 ^a	0.752	0.731		0.343

a. Predictors: (constant) psychological contract

b. Dependent variable: Employee retention

Source: Field survey (2019)

The simple linear regression shows (R^2) value of 0.752 which reveals that psychological contract accounts for 75.2% of the variation in employee retention. The

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F. statistics of 21.334 reveals that the model is statistically significant at 0.05 significant levels. This implies that psychological contract exerts a positive and statistically significant effect on employee retention. Therefore, the null hypothesis is rejected.

Table 4. ANOVA^a

Model	Sum of square	Df	Mean	F	Sig.
Regression	3.272	1	3.42	21.334	0.000
Residual	5.139	45	0.97		
Total	8.411	46			

- a. Predictors: (constant) psychological contract
- b. Dependent variable: Employee retention

Source: Field survey (2019)

Discussion

The results amongst others showed that there is a positive and statistically significant relationship between the predictor (psychological contract) and the response variable (employee retention). This finding concur with the studies of Mueller (2009); Dhanpat and Parumasur (2014); Kudzanayi, *et al.* (2016); Silva and Weerasinghe (2016); Weralupitiya and Yosadara (2016) which revealed that there is high correlation between psychological contract and employee retention. Also, the finding is in agreement with Nwokocho’s (2015) views that there is a strong linkage between psychological contract and employee retention. Secondly, the results showed that psychological contract does have a significant effect on employee retention. This finding is consistent with studies which revealed the effect of psychological contract on employee retention [Mueller, 2009, Kudzanayi, *et al.*, 2016; Silva & Weerasinghe, 2016; Weralupitiya & Yasadara, 2016]. The result is also in agreement with Suazo and Stone-Romero’s (2011) views that when employees perceive that their psychological contract is being fulfilled by the organization, their attitudes reflect higher work engagement and intention to stay with the organization for a long period time.

Conclusion and Recommendations

This study revealed through its perceived findings that psychological contract has a positive and statistical effect on employee retention. Also, it revealed that there is a



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strong positive and significant relationship between the predictor (psychological contract) and the dependent variable (employee retention). Therefore, the study concluded that psychological contract is precursor to employee retention. Hence, retention practices can only be successful if they are align with what employees' value and they take into consideration when deciding to remain (intention to stay) with or leave the organization (intention to quit). These subjective interpretations of retention factors should influence the effectiveness of retention policies of an organization. Based on the findings of this study, the following recommendations were made:

- i. Management should maintain acceptable norms and values in which psychological contract can evolve and develop.
- ii. Management should build strong organizational culture that promotes trust and transparency on policies and procedures that effect employees and create a humane work environment that accommodates cooperation, consensus and employees' participation in decision-making.
- iii. Management should keep all of its promise that is made to the employees. This is necessary to ensure a healthy employment relationship that will ignite employees' emotional stability and fulfilment of expectations in the workplace.
- iv. Management should not only pay attention to the employee psychological contract, but also enhance their organizational commitment through competitive remuneration and rewards, support employees in maintaining work life balance, treat them with respect and provide opportunities for their growth and development.
- v. Management should integrate employee centred programmes into their HR policies. This will create a feeling of obligation for the employees to remain with the organization and contribute to the overall success of the organization.
- vi. Finally, the study recommends that further research be undertaken to investigate the effect of psychological contract on service delivery in commercial banks in Nigeria.

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