



## Role of The Psychological Contract in Employee Retention For Local Authorities in Zimbabwe.

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**ABSTRACT:** *The study sought to analyse the role of the psychological contract in employee retention for local authorities in Zimbabwe with specific reference to the Municipality of Chinhoyi. The study was necessitated by a high exodus of skilled personnel. An exploratory survey design was adopted for the study. A sample size of 114 respondents was drawn from a target population of 400 comprising 382 current employees, 18 former employees and 6 management representatives using the simple random, convenience and purposive sampling techniques respectively. Questionnaires were used to collect data from both current and former employee respondents whilst face to face interviews were used to gain management opinion. The study concluded that there was a feeling of psychological contract breach amongst employees. Research findings revealed that unfulfilled promises and unfair labour practices by the employer were the major causes for breach of the psychological contract and subsequently leading to employee turnover. The study recommends that local authorities in Zimbabwe should accord significant importance to the informal contract of employment to foster a positive psychological contract through fulfillment of promises made and enhance retention of skilled personnel. The study also recommends that further research be undertaken to assess the impact of the psychological contract on service delivery for local authorities in Zimbabwe given the persistent deplorable service delivery since dollarisation of the economy.*

**Keywords:** *Psychological contract, Employee retention, Local authorities*

### I. INTRODUCTION

#### 1.1 Background To The Study

Over the past years, the economic environment in Zimbabwe has faced a myriad of challenges following the inception of the multi-currency economy (dollarisation) in 2009. Financial and liquidity crises have characterised the Zimbabwean economy for the past five years as companies find it difficult to recover from the decade long hyperinflationary economic environment that forced the government to demonitise the local Zimbabwean dollar and adopted a wide range of foreign currencies chief amongst them being the United States dollar. The biting liquidity crunch has seen many companies failing to competitively remunerate their employees. Companies are finding it difficult and rather impossible to meet the economic demands of their workforce. Subsequently, this has seen the majority of the Zimbabwean workforce earning far below the Poverty Datum Line (PDL) with many reportedly going for several months without receiving their salaries. Local authorities in Zimbabwe have hogged the limelight for their failure to routinely and consistently pay monthly salaries for their staff.

As a result of the economic challenges, the employment relationship in Zimbabwean local authorities has been undergoing fundamental changes that have severe consequences on employee retention. Employee relationships describe the assumptions about what the employer and employee have to offer and are willing to deliver. The current economic challenges faced in Zimbabwe since dollarisation make it difficult for local authorities to fulfill economic demands of employees as defined in their formal contracts of employment. This poses challenges on ability to retain skilled employees who have competencies that are critical in enhancing organizational success.

The Municipality of Chinhoyi has not been spared by the fragile economic environment prevalent in Zimbabwe. It is failing to review its salaries in line with the PDL and sub regional benchmarks in the local governance sector. The Municipality is also in severe salary arrears, having gone for several months without paying employee salaries. However, employees have a tendency to consider remuneration as their yardsticks in

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deciding whether to stay with the company or seek employment in other companies that seem to pay better. This has seen some skilled workers particularly in Engineering and Health Services deserting the Municipality. In light of these challenges, it maybe imperative for the Municipality of Chinhoyi and other Zimbabwean local authorities at large to consider the informal contract of employment through the psychological contract that can be reviewed for skills retention since the formal contract is rather a strenuous demand to fulfill in this current economic dispensation in the country.

According to Rousseau (2001), 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. The psychological contract plays a role in employees' decisions to stay or leave (Turnely and Feldman, 1998). The nature of the psychological contract influences employees' subjective interpretations and evaluations of their intentions to stay with the organisation. Turnely and Feldman (1998) argue that in order for skills retention to be effective, there is need to create a deal that is mutually understood by both the employers and employees. In support of this, Ans De Vos et al, (2005) explain that employee retention practices are successful if they are in tandem with what employees value and consider when deciding to stay or leave the organisation.

This challenges the Municipality of Chinhoyi's councilors and management to understand employees' subjective interpretations, expectations and informal obligations and evaluation of the employment relationship prompting the researchers to analyse the role of the psychological contract in employee retention for the Municipality and other local authorities in Zimbabwe at large. The literature reviewed by the researchers indicates that no research studies have been undertaken to specifically assess the role of the psychological contract in employee retention in a local government institution in Zimbabwe. Most studies have focused on the impact of the psychological contract on a wide spectrum of variables such as job satisfaction, employee turnover, performance, motivation, engagement and retention organizations. Therefore, this study may help provide a framework for the implementation of a positive psychological contract conducive for a favourable employment relationship that facilitates employee retention in Zimbabwean local authorities.

Findings from this study may help provide recommendations that improve the employment relationship, motivation and job satisfaction. Local authorities are strategic entities that play a critical role in driving economic development, thus this study may enhance direct management action in addressing employee retention challenges in local authorities and ensure that every skilled person effectively channels his or her efforts productively for better service delivery.

## **1.2 Statement Of The Problem**

The Municipality of Chinhoyi is failing to pay employees' monthly salaries regardless of the fact that they are pegged below the PDL for the least paid worker and fall far below the sub regional salary benchmarks for local authorities. This has resulted in skilled personnel from the Engineering and Health Services exiting the organisation suggesting manifestation of problems in the person work relationship through perceived fulfillment of obligations between the employer and employees. This poses challenges on the state of the psychological contract in existence within the Municipality for there is need to consider employees as key drivers of service delivery in local authorities and attempts made to craft a favorable employment relationship hinged on a positive psychological contract necessary for skills retention.

## **1.3 Research Objectives**

### **This Study Sought To Achieve The Following Objectives;**

- To establish how the psychological contract can be formed and breached?
- To identify the factors influencing employee retention?
- To assess the significance of the psychological contract in employee retention for local authorities in Zimbabwe?

## **1.4 Research Questions**

### **The Study Sought To Answer The Following Questions;**

- How can the psychological contract be formed?
- How can the psychological contract be breached?
- What are the factors that influence employee retention in local authorities?
- What role can be played by the psychological contract in employee retention?

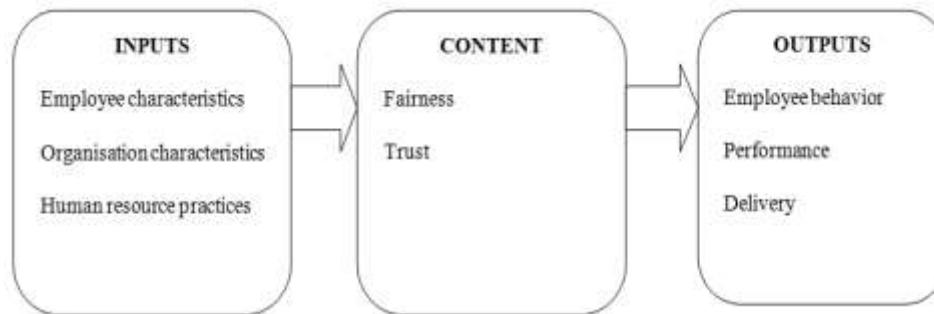
## **1.5 Assumptions**

The researchers assumed that an informal contract or psychological contract can help influence employees' decisions to stay in circumstances where the formal contract cannot be fulfilled. The researchers further assumed that the employer and employees were aware of expectations, beliefs, attitudes and informal obligations of the other party.

## II. LITERATURE REVIEW

The psychological contract has a significant and central role in work behaviour. It specifies the dynamics of the employment relationship between employers and employees. It is a concept which influences employees' beliefs and behaviour in the workplace (Robinson and Rousseau, 1994; Rousseau, 1995). It is becoming increasingly difficult for companies to set themselves apart by means of remuneration which reduces the impact of financial rewards on employee retention. The bonding with employees becomes necessary through the psychological contract (Capelli, 2001).

### 2.1 Theoretical Framework



**Fig 1: Guest Model of the Psychological Contract: Source:** Adapted from Guest and Conway (2004).

Guest and Conway (2004) suggested that the psychological contract is based on employees' beliefs that the employer is fulfilling the obligations between the two parties. It is the employee's expectation that the employer must honour the deal between them. The model classifies the factors that determine the state of the psychological contract into inputs, content or process and outputs that reveal whether the psychological contract exists or not. Guest and Conway (2004) explained that the extent to which employers adopt people management practices influences the state or nature of the psychological contract.

### 2.2 Conceptual Framework

Guest and Conway (2002) define the psychological contract as perceptions between the employer and the employee with regards to their mutual obligations towards each other. According to Griffin (2002), the psychological contract defines the assumptions that employers and employees have about their relationships. Both definitions express the expectations of the parties to the employment relationship in respect of what the employee will get from the organization and what the organization will also get from the employee. The psychological contract explains the employee's interpretations of inducements influencing the decision to stay or leave.

Armstrong (2001) points out the parties to the employment relationship's perspectives on what determines the state of the psychological contract. From the employees' perspective; fairness, equity and consistency, security of employment, scope to demonstrate competency, career expectations, and the opportunity to develop skills, involvement, influence and trust in management to keep their promises determine the state of the psychological contract. The psychological contract develops from expectations during recruitment and induction programmes. From the employers' perspective; competence, compliance, commitment and loyalty determines the state of the psychological contract.

Robinson and Rousseau (1994) suggest that the psychological contract is formed from the recruitment stage of the employee's work life to retirement or resignation. McInnis and Meyer (2008) opine that the psychological contract is formed when employers and employees establish new deals based on the various needs and wants of both parties. Psychological contracts develop from statements made by parties in the employment relationship (Mackay, 2007). This is confirmed by Conway and Briner (2005) who found out that when the employer and employee discuss in interviews what each can offer in the prospective relationship and if agreement is reached, the initial statements no matter how implied may later be remembered as promises and result in expectations that form the psychological contract.

On the other hand, psychological contracts are broken as a result of organisations' commitments to their own goals and values forgetting the needs and expectations of the employees (Mirvis and Hall, 1994). Robinson and Rousseau (1994) concur that the psychological contract is broken when a person capable of implementing it fails to do so. They further elaborate that psychological contract violations are evident in training and development, pay and benefits and promotion opportunities. Common in these assertions is the view that the psychological contract is broken when obligations are not fulfilled primarily on what is owed to

employees by employers. Morrison and Robinson (1997) support this in defining psychological contract breach as the employee perceptions that the organization has failed to meet its obligations.

Rousseau (1995) argues that the psychological contract can be broken when circumstances beyond control impedes fulfillment of obligations. The psychological contract is violated when an organization knowingly breaks its promises to employees. There are cases where people have been sacrificed to structural adjustments of organisations. The psychological contract is broken where employees feel employers have not fulfilled promises or met their commitments. It is broken by failure of those in power or management to pay a fair rate, unfair performance appraisal or lack of respect to employees (Conway and Briner, 2005).

### **2.3 Factors Influencing Employee Retention**

There are many reasons why employees leave an organisation. These include lack of challenging opportunities, lack of career advancement opportunities, and lack of recognition, inadequate team work and inflexible work schedules (Raja et al., 2004). Perceived future opportunities from employers as well as perceived extent to which employees' expectations are met are also key factors for employee retention (Hannay, 2002). Organisational rewards including financial rewards, career development opportunities, job content, social atmosphere and work life balance influence employee retention (Ulrich, 1998; Roehling et al., 2000; Horwitz et al., 2003).

### **2.4 Impact Of The Psychological In Employee Retention**

Many researchers believe that the psychological contract plays a significant role in employee retention. Robinson (1996) argues that a feeling of psychological contract breach negatively impacts on the employee's desire to stay with the organisation. Thus, the psychological contract can explain why most local authorities in Zimbabwe are finding it hard to retain their most skilled and competent employees. Guest and Conway (2002) confirm that a positive psychological contract induces commitment, satisfaction and willingness to stay with the organisation by the employee. The violation of a psychological contract results in a decline in willingness to contribute and intentions to stay in an organisation (Nelesh and Sanjana, 2014). The psychological contract breach impacts negatively on employees' willingness to contribute to the organisation and his or her desire to stay (Robinson, 1996; Coyle-Shapiro, 2002).

## **III. METHODOLOGY**

The methodology denotes the procedural framework within which the research was conducted. It highlights the research design adopted for the study, target population and the sampling techniques used to draw the sample size. The methodology also highlights the research instruments used to collect data from research participants justifying the validity and reliability of the instruments. Data collection, analysis and presentation procedures are also explained specifying the research ethics considered for this study.

### **3.1 Research Design**

This study adopted the exploratory survey design. The design was qualitative in nature and allowed the researchers to explore attitudes, behaviours and experiences of respondents to help provide a better understanding of the problem under investigation.

### **3.2 Target Population**

This was the population of interest. The researchers were interested in gathering data from both current and former employees as well as management of the Municipality of Chinhoyi. Only former employees who left the organisation after dollarization of the Zimbabwean economy in February 2009 were considered. Therefore, the target population was 400 comprising of 382 current employees, 12 former employees and 6 management representatives.

### **3.3 Sample And Sampling Procedure**

To ensure that every employee had an equal chance of being selected numbers we assigned and picked randomly to get 96 current employee respondents for the study. Convenience sampling was used to select all 12 former employee respondents whilst purposive sampling was used to select the 6 management representatives to participate in the study. Thus, a sample size of 114 was drawn for the study.

### **3.4 Research Instruments**

These are the tools that were used to collect data from the respondents. Questionnaires were used to gather data from both current and former employee respondents. The questionnaire was the main instrument used to collect data. Questionnaires consisted of a set of self administered questions given to selected

participants to respond on their expectations, obligations and reasons why one may decide to leave the organisation. Questionnaires enabled the researchers to collect data from many respondents in a short period of time. This method of data collection did not inconvenience the respondents for they could complete the questionnaire at some other time when they were free. The instrument was anonymous and thus respondents were free to provide any information without fear.

Face to face interviews were also used to gain management responses. The face to face interviews involved the researchers conducting personal interviews with the Municipality's selected heads. The method provided personal contact with respondents and opportunity to probe further in instances where clarification was sought.

### **3.5 Data Collection and Analysis Procedure**

A pilot study was conducted first to test the validity and reliability of the chosen research instruments. The researchers collected data from respondents to find factors that the respondents felt enhanced their commitment, expectations and sense of belonging to the organisation and the conditions that led to the exodus of employees. For ethical considerations, the respondents were duly informed of the purpose of the study and their right to withdraw from the study at any time or moment so as to ensure that they participated willingly. The data collected was analysed in Microsoft Excel.

## **IV. FINDINGS AND DISCUSSION**

### **4.1 Promises made by employer to employees during recruitment**

Forty one percent of respondents indicated that good salaries were promised, 28% indicated accommodation, 15% indicated transport, and 14 % indicated career advancement and 2% mentioned the other various promises like residential stands as promises made by the employer to employees during recruitment. These findings confirm that employers in deed make promises to employees during recruitment. When the employer and interviewee discuss what each party will bring to the relationship, those initial promises bring expectations that form the psychological contract (Conway and Briner, 2005).

### **4.2 Promises Made By Employer To Employees During Performance Appraisals**

Majority (50%) of the respondents indicated training as the major promise made by the employer through supervisors during performance appraisals followed by promotion (33%) and transfers (9%) among others (8%) that included provision of protective clothing and refresher courses. Promises made by the employer to employees during recruitment and performance appraisals contribute to the formation of the psychological contract. Psychological contracts develop from current or past actions as well as statements made by the employer during the recruitment process or appraisals (Mackay, 2007). Conway and Briner (2005) confirm that when the employer and employee discuss during interviews, the promises they make give rise to the formation of the psychological contract no matter how informal and imprecise they may be.

### **4.3 Evaluation Of Employer's Fulfillment Of Promises**

Respondents were asked to indicate their opinions regarding the extent to which the employer has managed to fulfill any promises made during recruitment and performance appraisals. Responses ranged from no fulfillment, partial fulfillment to fulfillment. Seventeen percent of the respondents indicated that they felt no fulfillment with 57% indicating partial fulfillment and 26% respondents indicating that they felt a state of fulfillment. Thus, a combined 74% of the respondents perceive failure to fulfill promises by the employer. Failure to fulfill promises made is perceived as failure to comply with the terms and conditions of the psychological contract and can be potentially damaging to all involved (Robinson and Rousseau, 1994). To confirm this, Mackay (2007) agrees that failure by the employer to fulfill promises made has a detrimental impact on the state of the psychological contract.

Findings reveal that the majority of employees felt that the employer was not forthcoming in fulfilling promises made. This has damaging repercussions on the state of relationship between the employer and employees and largely viewed as an outright breach of the psychological contract. Morrison and Robinson (1997) confirm that the psychological contract breach is the employee's perception that the organisation has failed to meet one or more of its obligations and the emotional or affective state that frequently follows such a perception.

### **4.4 Retention Factors**

Respondents were asked to indicate reasons for staying with the organisation. For each question, a ranking was made with the highest rank based on the mostly frequently indicated response. Career development opportunities ranked first, followed by opportunities for advancement, work atmosphere and lastly job security. Ulrich, 1998; Roehling et al., 2000, Horwitz et al., 2003 and Raja et al, 2004 all identify career development as

factor influencing employee retention. Reasons for leaving the organisation included opportunities elsewhere, work pressure and unfair labour practices among others. Some respondents also felt that restricted promotional prospects within the organisation made them leave to join other companies. Some respondents further indicated that it had become management's norm to promise a grade review whenever intentions to leave are known.

## **V. CONCLUSION**

The study concluded that the key factor influencing employee retention in Zimbabwean local authorities is career development. The study concluded that for Zimbabwean local authorities, the psychological contract is formed from the initial promises made to employees by the employers on joining the organisation and during performance appraisals. This was evident in promises of good salaries, accommodation, transport, career advancement and residential stands made during recruitment as well as promises of training, promotion and transfers made by the employers during performance appraisals. The study further concluded that for local authorities in Zimbabwe, the psychological contract is broken through failure by the employer to fulfill promises made and unfair labour practices. Seventy four percent perceived that the employer was failing to fulfill promises. The employers were failing to meet salary payments for employees. Finally, the study concluded that there was a feeling of psychological contract breach amongst employees.

## **VI. RECOMMENDATIONS**

The researchers recommend that management should create a psychological contract that enhances employee retention through honouring all promises made. This help foster a positive psychological contract that effectively facilitates the retention of skilled manpower since reliance on financial rewards is difficult in an economy fraught with financial and liquidity challenges. It is recommended that local authorities in Zimbabwe must integrate employee centred programmes into their Human Resource strategy. Significant importance should be accorded to the informal contract of employment to ensure fulfillment of obligations and expectations to retain competent and skilled workforce. It is also recommended that management of local authorities in Zimbabwe should also focus on non financial means of curbing exodus of skilled personnel such as promotional opportunities and participation in decision making. Financial rewards cannot be the only basis for retaining employees. Finally the study recommends that further research be undertaken to assess the impact of the psychological contract on service delivery for local authorities in Zimbabwe given the persistent deplorable service delivery since dollarisation of the economy.

## **VII. LIMITATIONS**

This study was only restricted to one local authority, Municipality of Chinhoyi. Therefore, data obtained from this study would also be limited. The study sought to analyse the role of the psychological contract in employee retention for local authorities in Zimbabwe. Other factors that may influence employee retention in local authorities were not considered as well as alternate outcomes of the psychological contract in organisations did not form part of this study.

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