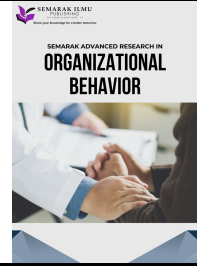




## Semarak Advanced Research in Organizational Behaviour

Journal homepage:  
<https://semarakilmu.my/index.php/sarob/index>  
ISSN: 3030-6264



# The Role of Psychological Contracts in Enhancing Employee Retention Strategies

Aqsa Soomro<sup>1</sup>, Charles Ramendran<sup>1,\*</sup>, Ramesh Kumar a/I Moona Haji Mohamed<sup>1</sup>

<sup>1</sup> Faculty of Business and Finance, Universiti Tunku Abdul Rahman (UTAR), 31900 Kampar, Perak Malaysia

### ARTICLE INFO

#### Article history:

Received 16 October 2024

Received in revised form 9 November 2024

Accepted 1 December 2024

Available online 21 December 2024

#### Keywords:

Psychological contracts; employee retention; turnover intentions; job satisfaction; retention strategies

### ABSTRACT

Among the many volatile challenges weighing heavily on this dynamic and competitive labour market, employee retention is paramount, especially in sectors like health care, where fluctuation in turnover can remarkably affect service quality and operational efficiency. This paper discusses the implications of a psychological contract on employee retention strategies. It means, the psychological contracts have gained a lot of importance as they reflect the perceptions of employees regarding the commitment of the organization to provide them job security, career development, and work-life balance. This paper focuses on the health care sector as the psychological contracts particularly affect the aspects of job satisfaction, organizational commitment, and trust among nurses and management. This paper examines how the proper management of psychological contracts can help minimize turnover intentions by integrating employee expectations along with organizational objectives. For this purpose, a narrative review of the literature has been carried out, which was informed by recent studies dealing with employee retention, the theory of psychological contract, and human resource practices. Aspects related to perceived organizational support, career opportunities, recognition, and work environment have been analysed in the context of their potential to assist in the creation of mutual commitment and minimizing turnover. Finding indicated that psychological contract breaches, like breached expectations concerning career development or job security, significantly enhance turnover intentions. An organization found practicing active management of psychological contracts through addressing employee expectations and aligning them with organizational objectives realizes a more committed and satisfied workforce. This results in the situation of reciprocity in culture, where both employer and employee obligations are honoured, leading to lower turnover and long-term success for the organization. The paper consequently concludes that the integration of psychological contract management into broader employee retention strategies will be imperative in building a stable, loyal workforce. Indeed, addressing implicit employee needs and expectations, particularly in high-stress industries such as health care, allows organizations to facilitate improved retention, build loyalty, and ultimately enhance overall organizational performance.

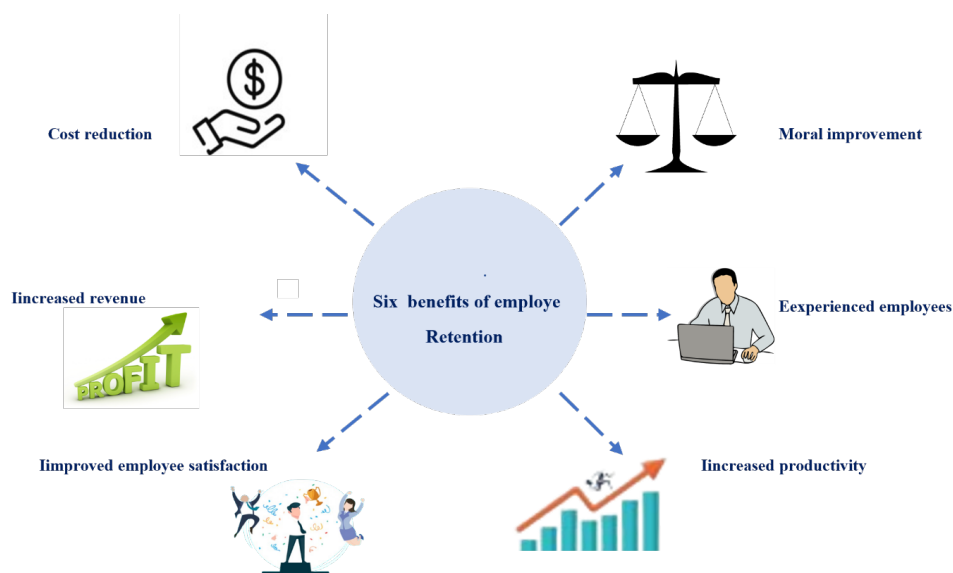
## 1. Introduction

\* Corresponding author.

E-mail address: [charlesr@utar.edu.my](mailto:charlesr@utar.edu.my)

<https://doi.org/10.37934/sarob.3.1.120a>

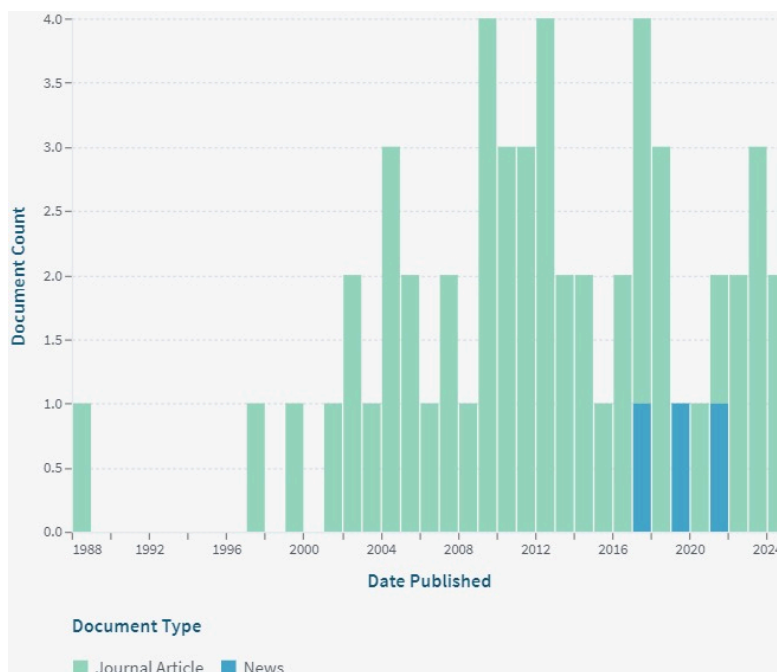
The long-term health and success of any organization are closely tied to its ability to retain key employees. Employee retention, defined as the process of encouraging employees to stay with the organization for the maximum period or until the completion of specific projects, is critical for maintaining customer satisfaction, enhancing organizational performance, and ensuring effective succession planning [3]. High turnover rates can lead to increased costs associated with hiring and training new employees, a loss of valuable institutional knowledge, and reduced morale among remaining staff [4]. Because of this, many companies want to come up with smart ways to keep their employees from leaving. They think about money but also try to look at other bigger things that make people want to stick around and be happy. In the evolving landscape of work, psychological contracts (PC) unwritten, informal agreements between employees and employers have emerged as a crucial factor in employee retention. PC encompass employees' perceptions of the mutual obligations between themselves and their employers, including aspects such as job security, career development opportunities, work-life balance, and recognition [5]. When companies meet these expectations, workers tend to feel more connected to their jobs and less likely to leave. But if those expectations aren't met? That can cause problems. People might get unhappy or lose trust and that can lead to more folks quitting [6].



**Fig. 1.** Illustrative way to explain the 6 benefits of employee retention [7]

Muhajiroh and his team recently found that managing the psychological contract (PC) really help keep valuable employees. It affects job happiness commitment to the organization, and trust between workers and their bosses [8]. When companies use strategies that include managing the PC, they often create a better work environment that meets workers' needs and expectations. This leads to better results for the organization [9]. This isn't just about keeping employees. It's also about holding on to their important skills and knowledge, which is super important for staying ahead of the competition. The goal of this study is to look into how PC helps improve strategies for keeping employees in organizations. By exploring different aspects of PC and how they affect commitment and retention, this paper aims to find the best ways to connect psychological contract management with larger company goals.

Understanding and managing these informal agreements gives organizations a strong tool to build a loyal and motivated workforce. This can help secure long-term success in a tough market. With good human resource management and strong leadership, companies can create an atmosphere that not only draws in talent but also keeps it by meeting the various needs and expectations of their workers [10].



**Fig. 2.** The publication trends of documents categorized as journal articles and news articles from 1988 to 2024 sourced from Lens.org

The Figure 2 displays the publication trends of documents categorized as journal articles and news articles from 1988 to 2024 sourced from Lens.org using key words "Psychological contracts, Employee retention, Turnover intentions, Job satisfaction, perceived organizational support, trust, Career development, ". This visual representation highlights the evolving academic and media interest in key themes related to psychological contracts, employee retention, turnover intentions, job satisfaction, perceived organizational support, trust, and career development.

From the graph, there is a noticeable increase in the volume of publications starting from the early 2000s, peaking around 2008 and again in 2016, with document counts reaching up to 4 per year. This surge indicates a growing scholarly and public interest in understanding how psychological contracts influence employee retention and turnover intentions, particularly during periods marked by economic shifts or organizational changes. Notably, there is a consistent pattern of publications from 2000 onwards, emphasizing ongoing research and discourse in areas such as job satisfaction and perceived organizational support. These factors are crucial in fostering trust within the workplace and supporting career development, both of which are integral to maintaining a committed and satisfied workforce. The graph also shows fluctuations in publication frequency, with a decline in the late 2010s, potentially reflecting shifting research priorities or the emergence of new topics within the broader context of organizational behaviour. Nonetheless, the persistent presence of publications underscores the continued relevance of these themes in addressing critical workforce issues. Overall, the data from Lens.org underscores the sustained and significant scholarly engagement with topics central to the psychological well-being of employees and their impact on organizational dynamics.

## **2. Methodology**

### **2.1 Approach**

This paper utilizes a narrative literature review approach to explore the role of PC in enhancing employee retention strategies within organizations. The purpose of this review is to synthesize existing knowledge on PC and identify best practices for aligning their management with broader organizational goals

### **2.2 Literature Research**

A broad literature search was conducted across multiple academic sources, including journal articles, books, and reputable online resources. The search focused on materials published in the last five years to ensure that the information reflects the most current understanding of PC and their impact on employee retention. Key search terms included “psychological contracts,” “employee retention,” “job satisfaction,” “organizational commitment,” “contract breaches,” and “employee-employer expectations.”

### **2.3 Selection Criteria**

The selection of literature was based on the relevance to the topic. The selected works included

- Foundational theories and definitions of psychological contracts.
- Empirical studies and case studies demonstrating the impact of psychological contracts on employee retention.
- Reviews and articles that discuss the management of psychological contracts in organizational settings.
- Publications that identify elements of psychological contracts, such as job security, career development, and work-life balance, which influence retention.

### **2.5 Analysis and Synthesis**

The gathered literature was reviewed to identify key themes and insights relevant to the role of PC in employee retention. The analysis focused on:

- Understanding how well-managed psychological contracts foster employee commitment and satisfaction.
- Exploring the consequences of psychological contract breaches on retention.
- Identifying strategies and best practices for managing psychological contracts to align with organizational goals.

The findings from the reviewed literature were synthesized to provide a comprehensive overview of the current state of knowledge on PC and their practical implications for employee retention.

## **3. Literature Review**

### **3.1 Psychological Contract**

The term "psychological contracts (PC)" was introduced by Rousseau [11] in 1995. It refers to the informal written agreements that exist between employers and employees. These contracts include the expectations, beliefs, and obligations that both sides hold towards each other. PC are not set in stone; they over time and depend on how individuals see things. This is different from formal

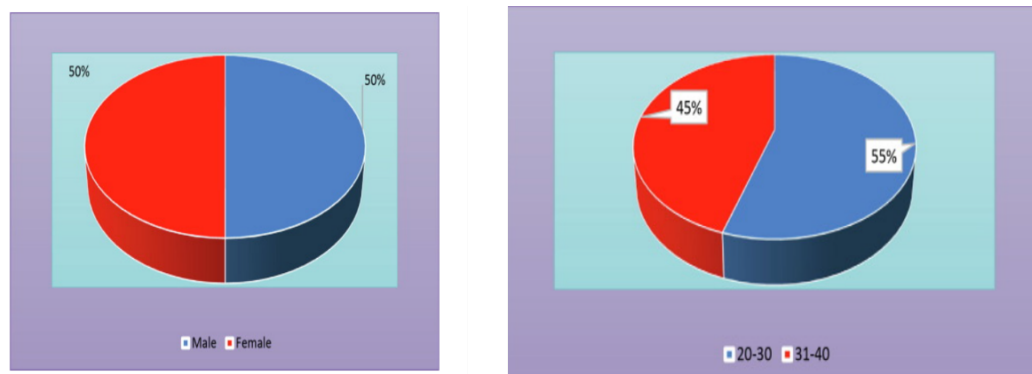
contracts, which are clear-cut and legally binding. You won't find these agreements written down anywhere. They grow through interactions, sharing ideas, and experiences at work. Because they can shift based on company rules and what workers expect, they're pretty flexible [12]. PC has two main parts: relational and transactional components. Relational contracts focus on the emotional side of the employer-employee relationship. This includes feelings like trust, job security, and loyalty [20]. Conversely, transactional contracts are less emotionally charged and less focused on long-term goals. Instead, they are more concerned with short-term, particular exchanges such as pay, perks, or task performance [13]. When everything fits well both relational and transactional aspects employees tend to stick around and feel good in their jobs. Psychological contracts matter a lot because they shape how employees think and act at work. If people believe their psychological contracts are being honoured that their employer is keeping promises they usually feel happier and more committed. This can lower turnover rates too [5,14]. Research shows that when companies manage these psychological contracts properly, they can create a positive atmosphere where employees' needs are met which helps with retention [15] (figure 3). But if there's a breach and workers feel let down by their employer's unmet expectations, it can hurt motivation and trust. Job satisfaction may drop and attrition rates may rise too [16]. Psychological contracts cover areas of the employment relationship that formal contracts often miss like trust and shared value making them super important for keeping employees around. In summary: PC capture those important yet subtle pieces of the employment relationship that help explain why employees stay or go.



**Fig. 3.** The diagram illustrates a holistic framework for enhancing employee experience through six key dimensions [1]

Equity Theory posits that individuals are motivated by fairness, and perceived imbalances in the employment relationship can lead to dissatisfaction and disengagement [17]. In line with this theory, demographic analysis, such as the visual representation of gender and age distributions in Figure 4, plays a critical role in understanding workforce composition and ensuring equitable treatment. The first chart illustrates an equal gender distribution among employees (50% male and 50% female), reflecting a balance that is essential for promoting workplace dynamics and equality, as emphasized by Goswami [2] who highlighted the importance of mutual expectations and obligations in employment settings. The second chart shows an age distribution with 55% of employees aged 20-30 years and 45% aged 31-40 years, underscoring the diversity of experience and generational perspectives that can influence organizational culture and performance. Together, these

demographic insights underscore the need for organizations to address equity and fairness, as imbalances in these areas can impact overall employee satisfaction and engagement.



**Fig. 1.** The visual representation of gender and age distributions [2]

These theories underline the need of regulating psychological contracts to maintain a balanced and good connection between employees and employers. Organizations can effectively manage psychological contracts by communicating clearly, establishing reasonable expectations, and continuously keeping their end of the bargain with staff members. These agreements are significantly shaped by the relationships, encouragement, and corporate cultures that managers and leaders provide. Bringing psychological contract management into line with overarching corporate objectives helps foster a more devoted and stable workforce, which in turn improves organizational performance.

### 3.2 Longitudinal Perspectives on Psychological Contracts

Longitudinal studies show that the psychological contract is not a static concept but one that continually changes as employees switch jobs, responsibilities, and even their perceptions of organizational justice. One such study showed Leadership and organizational culture changes significantly influenced staff perceptions of psychological contract obligations, leading to shifts in their views on fairness and trust over time [18]. demonstrated how psychological contract breaches that occurred early in the course of employment accumulated over a period of time, with long-term effects on dissatisfaction and organizational commitment [19]. Longitudinal research has also provided insight into the relationship between psychological contract evolution and employee retention. study found that when employees perceived a breach in their psychological contract, their likelihood of staying with the organization diminished over time. These findings emphasize the long-term consequences of failing to manage psychological contracts effectively, particularly regarding employee turnover and performance [20]. For an example in the healthcare sector, psychological contracts for nurses changed because of organizational restructuring and increased workload. Over time, these changes led to altered expectations and feelings of mistrust, which impacted their commitment and intention to stay in the organization. This demonstrates the importance of longitudinal approaches in understanding how sector-specific challenges, like those seen in healthcare, can affect psychological contracts [18].

### 3.3 Psychological Contracts across Various Organizational Sectors

The concept of psychological contracts has been widely studied across various sectors, highlighting significant differences in employee expectations and organizational commitments.



**Fig. 5.** Psychological contract across sectors

#### 3.3.1 Healthcare sector

The investigation in the health sector reveals that psychological contracts may be impacted by the high level of strain on the work environment. For example, studies have concluded that health professionals may tend to perceive job security and organizational support since working in a caring profession is emotionally challenging. Also, teamwork and collaboration dynamics in healthcare settings may foster stronger relational psychological contracts because employees often depend on one another for support [21].

#### 3.3.2 Education sector

In educational institutions, the factors constituting psychological contract include autonomy and professional development. Teachers and lecturers are reportedly motivated by achievement and acknowledgement of efforts, where career development becomes an important emphasis, further supported by supportive administration. This contrasts with health service provision where emotional and relational aspects were prominent, as opposed to professional development [22].

#### 3.3.3 Corporate sector

In organizational contexts, psychological contracts often reflect performance and outcome-based expectations. Accordingly, studies have found that for this industry, the psychological contracts are transactional type with a preponderance of financial rewards and career advancement; emphasis on outcome or result may breed a more competitive milieu often very different from the teamwork and collaboration found in health care and education [23].

### *3.4 External Influences on Psychological Contracts*

Psychological contracts do not exist in a vacuum; they are influenced by factors internal to the organization, but also by much wider external ones. An understanding of how fluctuations in economic conditions and technologies may affect the psychological contract will support an organization's ability to modify the way it retains its employees in a dynamic environment. This will ensure that the expectations of the employer and employee remain aligned over time under continuous external pressures.

#### *3.4.1 Economic shifts and psychological contracts*

Economic fluctuations, such as recessions, inflation, and changes in the labour market, can have a significant impact on psychological contracts between employees and organizations. During periods of economic downturn, employees may prioritize job security over other benefits and adjust their expectations regarding promotions, bonuses, or salary increases. This shift can lead to a mismatch between the organization's promises and employees' expectations, potentially causing dissatisfaction if not managed effectively [24].

For instance, during times of inflation or rising living costs, employees may raise their expectations for adequate compensation, which may trigger an evaluation of fairness and equity within the organization. If organizations are unable to meet these heightened financial expectations, employees may perceive a violation of the psychological contract, which could erode their loyalty and long-term commitment.

#### *3.4.2 Technological advancements and psychological contracts*

Technological innovations are reshaping psychological contracts, particularly in terms of job roles and the skills required for effective performance. Automation, artificial intelligence, and the increasing use of digital tools have led to changes in job responsibilities across various industries. As a result, employees are placing greater emphasis on the need for continuous development and training to keep pace with technological changes [25]. Employees expect organizations to invest in their professional growth and provide opportunities for upskilling. By offering training programs and promoting career development, organizations can strengthen the psychological contract by demonstrating their commitment to supporting employees' adaptability and long-term success in the evolving workplace.

Moreover, technological advancements are also driving the widespread adoption of remote and hybrid work models. These changes influence employees' expectations regarding work-life balance, flexibility, and autonomy. Organizations that support flexible work arrangements are seen as responsive to these evolving expectations, which helps reinforce the psychological contract. On the other hand, resistance to flexible work options can be perceived as a breach of trust, potentially undermining employee satisfaction and retention [26].

### *3.5 Employee Retention*

Employee retention refers to the strategies and practices that organizations implement to encourage employees to remain with them for extended periods. It is crucial to sustain a stable and skilled workforce, particularly in sectors known for elevated employee turnover rates, such as hospitality and education [27]. Employee retention is heavily influenced by how well an organization



meets the unspoken expectations of its employees, often referred to as the psychological contract. When these expectations, such as career growth opportunities, recognition, and fair treatment, are met, employees are more likely to feel valued, satisfied, and committed to staying with the company.

Conversely, unmet expectations can lead to dissatisfaction and turnover. Therefore, companies that focus on understanding and addressing these implicit needs can significantly improve retention rates, keeping employees engaged and loyal [28]. Perceived fairness, often referred to as organizational justice, is a key factor that influences the relationship between employees' views of psychological contracts and their satisfaction with retention strategies. When employees feel that their organization treats them fairly, they are more likely to be content with how retention measures are applied, thereby enhancing their overall satisfaction and commitment to staying with the organization [29]. A study focusing on private organizations in Abeokuta revealed that most employees were content with how their psychological contracts were fulfilled. This contentment had a notable impact on their commitment to their employers over the long term. The findings suggest that upholding these psychological commitments is crucial, as it can significantly enhance employee retention rates [6]. Psychological contracts significantly impact employees' decisions about whether to remain with or leave an organization, making them a key factor in retention strategies. This highlights the importance of aligning motivational approaches with the specific retention needs of employees to effectively keep them engaged and committed [30]. Psychological contracts are pivotal in employee retention, as they involve recognizing performance and meeting implicit expectations. This is crucial for tackling the challenges faced by modern companies within the evolving global context [31].

According to study, when workers are happy in their positions, they are less likely to quit the company. This sense of completion frequently results from the accomplishment of knowledge and psychological contracts [32]. Conversely, when psychological contracts are breached where employees feel that the company has failed to meet its implicit promises negative outcomes can arise. These might include diminished job satisfaction, a loss of trust, and an elevated rate of employee turnover [33]. Breaches of psychological contracts can arise from several factors, such as changes in job responsibilities, unmet expectations for career growth, insufficient recognition, or perceived unfair treatment. These breaches often lead to negative emotional reactions, including feelings of betrayal and disappointment, which may prompt employees to disengage or resign from the organization. Research has highlighted key aspects of psychological contracts that are crucial for employee retention, including expectations about job security, opportunities for career progression, work-life balance, and the perceived support from the organization [34]. Table 1 describes key elements of psychological contract and its impact on retention.

**Table 1**

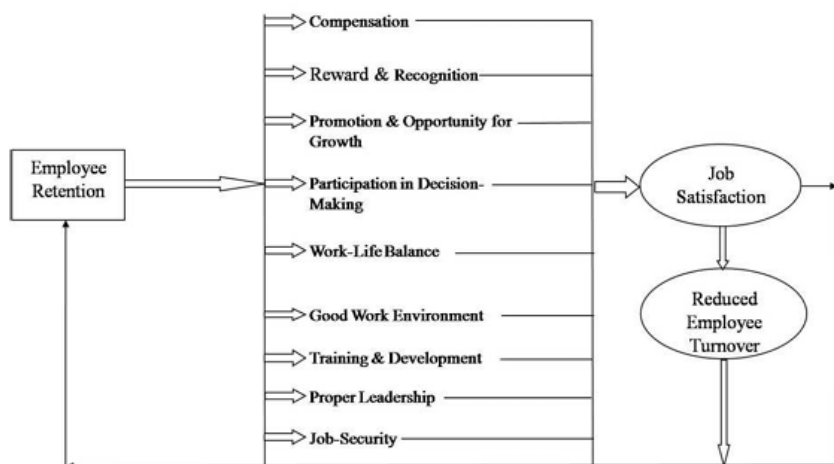
Key elements of psychological contract and its impact on retention

Elements of PC	Description	Impact on Retention	Supporting Evidence	References
Career Development	Opportunities for growth, promotions, and skill enhancement	Enhances job satisfaction and reduces turnover intentions.	Studies show a positive correlation with retention.	[35]
Work-Life Balance	Ability to balance work responsibilities with personal life.	Increases job satisfaction and lowers turnover rates.	Research highlights its significance for retention.	[36]
Job Security	Perception of stability and assurance against layoffs.	Improves organizational commitment and reduces turnover	Evidence links job security to lower turnover.	[37]
Recognition and Reward	Acknowledgment and rewards for contributions and achievements.	Boosts job satisfaction and reduces likelihood of leaving the organization	Recognition is crucial for employee retention.	[38]
Work Environment	Quality of the work environment, including relationships with colleagues and supervisors.	A positive environment promotes retention and job satisfaction.	A supportive work environment is linked to retention	[39]

### 3.6 Employee Retention, Employee Satisfaction and Employee Turnover Model

One significant obstacle that employees face nowadays is the retention of hired personnel within their organisation. In the era of intense rivalry, every organisation strives to provide optimal facilities to its personnel. Meeting the demands of human resources is a challenging task that many organisations confront today. Comprehending and grasping the workings of the human mind is exceedingly challenging. In addition, there are several opportunities for highly qualified and talented individuals, making it increasingly challenging for employers to meet their needs and retain them. There is no universal strategy or retention plan that can meet the needs of every employee in an organisation. There is no universal strategy or retention plan that can meet the needs of every employee in an organisation. Due to our distinct personalities, we possess varying wants and expectations from the organisation. Study found that and concluded that factors such as age, job satisfaction, tenure, job image, met expectations, and organisational commitment are consistently associated with turnover intentions and actual turnover [40]. Research by Rumpoko and co-worker Analysed the several factors that influence the likelihood of quitting a job and found that emotional weariness, reduced levels of innate job satisfaction, and unhappiness with income and promotional chances were the primary predictors [41]. Study found a strong association between job satisfaction and turnover intentions. This suggests that when job satisfaction is higher, individuals are less likely to have the desire to quit their job [42]. The model bellow in Figure 5 clearly illustrates that employee retention characteristics are directly correlated with work satisfaction. If these factors are present within the organisation, the inclination to resign or transition to another job is diminished. Job satisfaction and employee turnover are consistently inversely associated. The model demonstrates

that the presence of the indicated variables in the organisation would not only facilitate the attraction of new employees, but also contribute to the retention of existing employees.

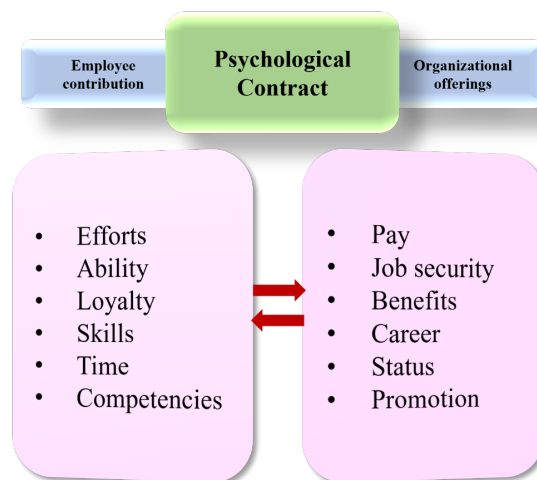


**Fig. 6.** The employee retention and job satisfaction model [43]

### 3.7 Aligning Psychological Contract Management with Organizational Goals

Organizations must ensure that their psychological contracts reflect the strategic priorities and values of the company. For example, if an organization prioritizes innovation, the psychological contract should include commitments to employee development, creativity, and providing resources for continuous learning. This alignment helps employees feel their roles and contributions are valued and integral to the organization's success [18]. Clear and consistent communication about organizational goals and how employees roles contribute to achieving them is key to managing psychological contracts [44]. When employees understand how their work aligns with the company's mission and goals, they are more likely to feel committed and less likely to leave. This clarity reduces the risk of psychological contract breaches, which occur when there is a discrepancy between what the organization promises and what it delivers Performance management systems should be aligned with psychological contracts by recognizing and rewarding behaviours that support organizational goals. For instance, if collaboration is a key organizational goal, rewards and recognition should be tied to team performance and cooperative behaviours [45]. This approach reinforces the psychological contract by meeting employees' expectations for fair treatment and recognition, thereby enhancing retention. In order to match organizational objectives with psychological contracts, leadership is essential. One of the main components of successful psychological contracts is trust, which is developed by leaders who are open, encouraging, and skilled communicators[46]. Employees who have faith in the leadership are more devoted to the organization's mission and feel safe in their positions, which lowers the likelihood that they would leave [47]. Organizations should regularly review and adapt their psychological contracts in response to changes in organizational goals or the external environment. This includes seeking feedback from employees to ensure that their expectations are met and that any misalignments are promptly addressed [48]. An adaptable approach to psychological contract management ensures that the contracts remain relevant and supportive of both employee needs and organizational objectives. By aligning employee contribution with organizational goals, companies can create a cohesive work environment where employees understand their role in the larger picture, feel valued, and are motivated to stay. This alignment not

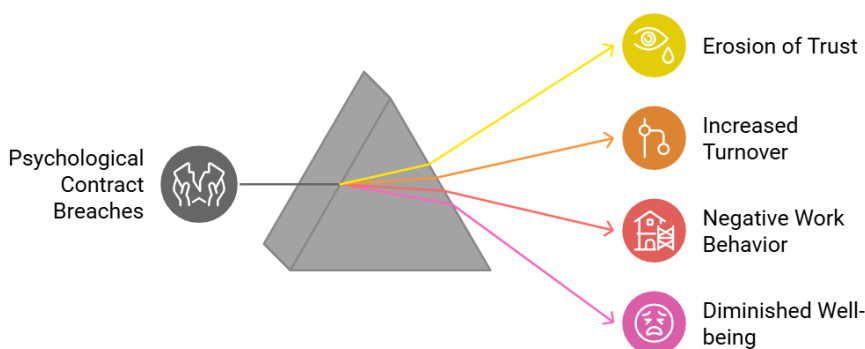
only strengthens the psychological contract but also contributes to achieving long-term organizational success through enhanced employee retention and engagement [49] (figure 6).



**Fig. 7.** The diagram illustrates the concept of the psychological contract, highlighting the mutual exchange between employee contributions and organizational offerings

### 3.8 Negative Consequences of Psychological Contract Breaches and Mismanagement on Retention

Negative Consequences of Psychological Contract Breaches and Mismanagement on Retention  
As illustrated in the figure 8 below, psychological contract breaches lead to several detrimental outcomes that directly affect employee retention. These include the erosion of trust, increased turnover intentions, negative work behaviour, and diminished employee well-being. When these breaches are not properly managed, the cumulative effect can significantly harm the organization's ability to retain its workforce and maintain high performance.



**Fig. 8.** Consequences of breaches of psychological contract

Breaches of the PC have a major consequence on employee retention, affecting intentions to leave and the dynamics of the workplace. Comprehending these breaches is essential for companies hoping to keep their workforce competent. When psychological contracts are breached, employees perceive that their expectations are unmet, leading them to explore alternative job opportunities. This dissatisfaction heightens their intention to leave the organization [50]. Contract violations often lead to decreased employee performance, exacerbating retention issues. Discontented employees,

feeling undervalued, are less likely to remain with the company, further compounding the challenge of keeping them [51]. Violations of psychological contracts, especially among proactive employees, can lead to detrimental behaviours such as vocalizing grievances and expressing intentions to quit.

These responses negatively impact employee retention [52]. When psychological contracts are violated, it can lead to adverse effects such as increased intentions to leave and diminished job satisfaction. This underscores the importance for businesses to actively manage and uphold these agreements to maintain employee loyalty [53]. The fulfilment of psychological contracts can give great impetus toward better employee retention and satisfaction. However, the outcomes of breaches and mismanagement can be deep, often leading to destructive results from both the employee and organizational viewpoints [54]. One-way breaches occur when employees perceive that their organization has failed to meet the implicit promises or expectations embedded in the psychological contract through unmet career development opportunities, lack of job security, and/or lack of adequate recognition. Whereas mismanagement, or organizational failure to actively foster or maintain such informal agreements, leads to disengagement and heightened turnover [55]. One of the immediate effects of a psychological contract breach is the erosion of trust between employees and the organization. Feelings of betrayal among employees may reduce their organizational commitment when employees perceive a violation of expectations by the employer.

This usually expresses itself in the form of lower job satisfaction with reduced motivation to perform [56]. Accordingly, employees who felt a violation of their psychological contracts were much more likely to reduce their efforts and commitment to the organization and, hence, more likely to increase their intentions to leave the organization [57]. The impact of psychological contract breaches on retention is particularly evident in employees' heightened turnover intentions. When employees believe that their employer has not upheld its side of the psychological contract, they are more likely to seek employment elsewhere [58]. Studies have shown that psychological contract violations contribute to higher attrition rates as employees become disengaged and disillusioned with the organization and this turnover can be especially costly for organizations, leading to the loss of talent, institutional knowledge, and increased recruitment and training expenses [59]. Study found that employees for whom psychological contract breaches have occurred are more likely to exhibit disengagement and a decline in performance because the sense of investment in the success of the organization is no longer present [60].

### *3.9 Best Practices for Managing Psychological Contracts*

Effectively managing psychological contracts (PCs) is crucial for boosting employee retention and aligning individual goals with organizational objectives. Psychological contracts, which consist of the implicit expectations and beliefs shared between employees and employers, have a significant impact on employee behaviour, satisfaction, and commitment. By applying best practices in managing these contracts, organizations can create a more positive work environment, decrease turnover intentions, and enhance overall performance.

To increase commitment, job satisfaction, and overall organizational success, it's vital for both employers and employees to manage their psychological contracts effectively. Addressing breaches in these contracts can be achieved through several best practices, as illustrated in Figure 7. These practices include fostering a supportive environment, reiterating the psychological contract, and providing necessary tools and assistance. Building trust and aligning with organizational goals are supported by open communication, transparency, and involving employees in decision-making. Addressing fairness issues, providing feedback, and making necessary adjustments ensure that expectations are met on both sides, which reduces turnover risk and promotes a more cohesive

workplace. Implementing these strategies can help align organizational and individual goals, bridge gaps in hidden expectations, and lay the foundation for long-term success.



**Fig. 9.** Fixing a broken [61]

### 3.9.1 Clear communication of expectations

In order to effectively manage psychological contracts, communication is essential. It improves overall happiness and performance by fostering mutual knowledge of expectations, lowering perceived breaches, and bringing employee expectations into line with corporate realities [62]. As soon as the employment relationship begins, organizations should establish reasonable and attainable expectations. This entails being open and honest about the work-life balance, professional advancement, and job security that the business can provide.

### 3.9.2 Foster a culture of trust and transparency

Through unambiguous expectations throughout the hiring and onboarding procedures, employers can avoid misconceptions that may result in breaches of the psychological contract [63]. Psychological contracts can be strengthened by an environment at work that values mutual respect, trust, and appreciation. Employers ought to concentrate on developing a welcoming workplace where staff members feel respected and valued. A positive work culture is mostly influenced by offering chances for professional progress, encouraging a healthy work-life balance, and recognizing and rewarding employee achievements.

### 3.9.3 Align organizational goals with employee expectations

To effectively manage psychological contracts, business goals and employee expectations must be in line. Employee participation in decision-making procedures, frequent performance reviews, and coordinating individual goals with company objectives can all help accomplish this alignment [31].

**Table 2**

Practical examples of successful psychological contract management in different organizations

Organization	Actions Taken	Outcomes	Source
IT industry	Clear Communication, Employee Empowerment, Recognition and Reward Systems, Supportive Work Environment, Regular Feedback Mechanisms	Increased Employee Engagement, Reduced Turnover Intentions, Enhanced Organizational Performance, Stronger Employee-Employer Relationships, Better Adaptability to change.	[66]
Health care	Manager Support and Leadership, Recognition of Skills, Training for Managers, Understanding Dynamics of the Psychological Contract	Enhanced Motivation, Improved Job Satisfaction, Stronger Employee-Employer Relationships, Quality of Patient Care, Reduced Incidence of Breach	[67]
Company	Fulfilment of Obligations, Addressing Violations, Focus on Justice and Fairness, Human Resource Management Practices, Monitoring Job Insecurity	Increased Organizational Commitment, Improved Job Satisfaction, Reduced Turnover Intentions, Enhanced Performance, Better Employee Well-being, Positive Organizational Citizenship Behaviour	[57]
Academic	Performance Evaluations, Encouraging Open Communication, Supporting Employee Development, Recognizing Contributions:	Increased Employee Satisfaction, Enhanced Employee Productivity, Organizational Citizenship Behaviour, Reduced Turnover Intentions, Stronger Employee-Employer Relationships	[68]

#### *3.9.4 Regular feedback and performance reviews*

Organizations can reinforce psychological contracts by making sure that workers perceive a direct link between their responsibilities and the overarching objective of the company. Keeping psychological contracts under control requires regular performance evaluations and comments. They give employers and workers a chance to communicate expectations and address any differences. Feedback needs to be continuous, constructive, and geared toward assisting staff members in developing and achieving their professional goals. This strategy not only deals with possible violations but also strengthens the psychological contract by demonstrating to staff members that the company cares about their advancement [64].

#### *3.9.5 Support career development and learning opportunities*

Career development is often a central component of psychological contracts. Organizations that invest in employee development through training, mentorship, and clear career progression opportunities demonstrate a commitment to their workforce [65]. By supporting continuous learning and providing pathways for advancement, employers can fulfil a key expectation of many psychological contracts, thereby enhancing retention.

#### *3.9.6 Address psychological contract breaches promptly*

When there are breaches, it's critical to respond to them quickly and skilfully. Rebuilding trust can be facilitated by admitting the violation, comprehending how it affected the employee, and acting to make things right. Employers should be alert to possible violations, such as unfulfilled job role changes or promotions, and should seek to establish solutions that satisfy both sides [49].

#### *3.9.7 Promote work-life balance*

Another best practice for managing psychological contracts is to support work-life balance. For many employees, providing flexible work schedules, honouring personal time, and encouraging a positive work-life balance are crucial components of the psychological contract. Organizations can improve employee happiness and loyalty by meeting these criteria [60].

#### *3.9.8 Recognition and rewards*

Managing psychological contracts is significantly influenced by rewards and recognition. Formal and informal recognition of an employee's accomplishments aids in fulfilling the shared responsibilities that form the basis of the psychological contract [57]. Non-monetary incentives, competitive pay, and recognition programs can all serve to reinforce a commitment to positive conduct.

### **4. Limitations of the Study**

As a narrative review, this paper does not employ a systematic or exhaustive search strategy. The findings are based on a selective sampling of the literature and may not encompass all available research on PC. Additionally, the review reflects the subjective interpretation of the author, which could introduce biases in the selection and synthesis of the literature.



## 5. Conclusions

This research emphasises the crucial significance of psychological contracts (PC) in improving employee retention methods. Organisations may greatly enhance job happiness, organisational commitment, and trust, which are crucial for minimising turnover intentions, by recognising and effectively handling the implicit expectations and obligations between employees and employers. The investigation demonstrates that effectively managed psychological contracts cultivate a feeling of reciprocity and mutual dedication, which are crucial in establishing a supportive work environment that matches with the requirements of employees and the aims of the organisation.

The key findings suggest that factors such as job security, career advancement prospects, work-life equilibrium, and acknowledgement play a vital role in influencing employees' choices to remain with or go from an organisation. Efficiently managing these factors, by means of transparent communication, synchronisation with organisational objectives, and timely resolution of breaches, can reduce the adverse effects linked to violations of the psychological contract. Moreover, the research emphasises the significance of effective leadership and open communication in strengthening favourable psychological agreements, ultimately leading to a more dedicated and devoted staff.

To summarise, including psychological contract management into wider employee retention initiatives is a potent tool for organisations seeking to cultivate a more committed and secure staff. Organisations can achieve sustained long-term success by actively identifying and addressing the implicit agreements that influence employee behaviour. This can be done by enhancing retention efforts, fostering a culture of trust and fairness.

## 6. Future Direction

Future research should prioritise conducting longitudinal studies to monitor the evolution of psychological contracts over time and their reactions to organisational and external fluctuations. Furthermore, it is imperative to analyse the influence of digital transformation on psychological contracts, specifically the consequences of remote work and digital communication. This analysis will be essential for adjusting retention methods in the contemporary workplace.

An important aspect to consider is the examination of diversity, equity, and inclusion in psychological contracts. This analysis can assist in customising retention methods to effectively address the specific requirements of various employee groups. Studying solutions for handling breaches in the psychological contract, such as methods for regaining trust, can offer significant insights on reducing negative effects on employee retention.

Examining the impact of various leadership styles on meeting psychological contracts would deepen our comprehension of how leadership affects employee retention. Conducting comparative studies across different sectors and cultures will offer a more comprehensive understanding of the global functioning of psychological contracts. Integrating AI and data analytics to track psychological contract fulfilment can provide novel, data-driven methods for enhancing retention tactics, enabling organisations to proactively tackle issues before they result in turnover.

## References

- [1] T. L. Tan. "holistic framework for enhancing employee experience through six key dimensions." <https://www.gartner.com/en/supply-chain/insights/power-of-the-profession-blog/focusing-on-talent-retention-to-grow-your-organization> (accessed).
- [2] Goswami, Manisha. "Analysis of psychological contract influence on employee commitment." *Materials Today: Proceedings* 37 (2021): 2670-2676. doi: <https://doi.org/10.1016/j.matpr.2020.08.523>.

- [3] Okolie, Ugo C., and Jude N. Memeh. "Psychological Contract and Employee Retention: The Role of HR." *RUDN Journal of Public Administration* 9, no. 3 (2022): 316-331.
- [4] Snyman, Annette M., Melinde Coetzee, and Nadia Ferreira. "The psychological contract and retention practices in the higher education context: the mediating role of organisational justice and trust." *South African Journal of Psychology* 53, no. 2 (2023): 185-198.
- [5] Dam, Ngan, Dieu Hack-Polay, Mahfuzur Rahman, and Ali B. Mahmoud. "Psychological contract and young talent retention in vietnam: Development and validation of a hierarchical reflective structural model." *Businesses* 3, no. 1 (2023): 36-51.
- [6] Zacchaeus, Sowemimo Olatunji. "Psychological Contract and Employee Retention in Private Organizations." *International Journal of Management and Fuzzy Systems* 7, no. 3 (2021): 41-46.
- [7] M. Holliday. "10 Benefits of Employee Retention for Businesses." <https://www.netsuite.com/portal/resource/articles/human-resources/employee-retention-benefits.shtml> (accessed).
- [8] Muhajiroh, Nailatul, and Noermijati Noermijati. "How does psychological contract mediate the effect of transformational leadership on job satisfaction? Moderating variable of tenure." *Khazanah Sosial* 6, no. 2 (2024): 275-293.
- [9] Catlett, Fay E. "Management Strategies to Improve Employee Retention and Organizational Performance." PhD diss., Walden University, 2024.
- [10] ZENKU, Imer, and Marija K. DIMOVSKA. "LEADERSHIP STYLES AS A FACTOR FOR SUCCESSFUL MANAGEMENT OF HUMAN RESOURCES AND ECONOMIC BENEFITS IN ORGANIZATIONS." *Vizione* 43 (2024).
- [11] Rousseau, Denise M. "Psychological contracts in organizations: Understanding written and unwritten agreements." *Thousand Oaks* (1995).
- [12] Knapp, Joshua R., Marjo-Riitta Diehl, and William Dougan. "Towards a social-cognitive theory of multiple psychological contracts." *European Journal of Work and Organizational Psychology* 29, no. 2 (2020): 200-214.
- [13] Singh, Nishant, Harsha Tyagi, and Umesh Bamel. "Impact of transactional, relational and balanced contract on affective commitment: meaningful work as mediator." *International Journal of Productivity and Performance Management* 70, no. 1 (2020): 131-149.
- [14] Suherman, Usep, Eeng Ahman, and Disman Disman. "Effect Of Spiritual Leadership And Psychological Contracts On Employee Job Satisfaction At Indonesian Islamic Bank (BSI) Bandung Branch." *Jurnal Manajerial* 10, no. 01 (2023): 128-142.
- [15] Cioca, Iulia A., José Ramos, M. Felisa Latorre, and Yolanda Estreder. "Psychological contract mutuality and work-related outcomes: testing a mediation model." *The Spanish Journal of Psychology* 23 (2020): e53.
- [16] Sischa, Philipp E., André Melzer, Alexander F. Schmidt, and Georges Steffgen. "Psychological contract violation or basic need frustration? Psychological mechanisms behind the effects of workplace bullying." *Frontiers in Psychology* 12 (2021): 627968.
- [17] Piramanayagam, Senthilkumaran, and Saurabh Kumar Dixit. "Sage Bliss: the Question of Employee Equity." In *Teaching Cases in Tourism, Hospitality and Events*, pp. 288-297. GB: CABI, 2023.
- [18] Raeder, Sabine. "Sustaining psychological contracts during organizational change." *Gruppe. Interaktion. Organisation. Zeitschrift für Angewandte Organisationspsychologie (GIO)* 54, no. 2 (2023): 211-221.
- [19] Wiechers, Hermien E., Jacqueline A-M. Coyle-Shapiro, Xander D. Lub, and Steven ten Have. "The tremors of interconnected triggers over time: How psychological contract breach can erupt." *Journal of Organizational Behavior* 43, no. 7 (2022): 1172-1189.
- [20] Robinson, Sandra L., and Elizabeth Wolfe Morrison. "The development of psychological contract breach and violation: A longitudinal study." *Journal of organizational Behavior* 21, no. 5 (2000): 525-546.
- [21] Gulzar, Saba, Kanwal Hussain, Ather Akhlaq, Zuhair Abbas, and Shagufta Ghauri. "Exploring the psychological contract breach of nurses in healthcare: an exploratory study." *Asia-Pacific Journal of Business Administration* 16, no. 1 (2024): 204-230.
- [22] Sewpersad, Romona, Shaun Ruggunan, Jamila K. Adam, and Suresh Babu Naidu Krishna. "The impact of the psychological contract on academics." *Sage Open* 9, no. 2 (2019): 2158244019840122.
- [23] Sachdeva, Geeta. "Impact of Psychological Contract on Employees' Performance: A Review." *Research anthology on human resource practices for the modern workforce* (2022): 55-72.
- [24] Jayaweera, Thushel, Matthijs Bal, Katharina Chudzikowski, and Simon De Jong. "The impact of economic factors on the relationships between psychological contract breach and work outcomes: a meta-analysis." *Employee Relations: The International Journal* 43, no. 3 (2020): 667-686.
- [25] Bankins, Sarah, and Paul Formosa. "When AI meets PC: Exploring the implications of workplace social robots and a human-robot psychological contract." *European Journal of Work and Organizational Psychology* 29, no. 2 (2020): 215-229.

- [26] Weideman, Marcel, and Karl B. Hofmeyr. "The influence of flexible work arrangements on employee engagement: An exploratory study." *SA Journal of Human Resource Management* 18, no. 1 (2020): 1-18.
- [27] Ghani, Bilqees, Muhammad Zada, Khalid Rasheed Memon, Rezwan Ullah, Afraseyab Khattak, Heesup Han, Antonio Ariza-Montes, and Luis Araya-Castillo. "Challenges and strategies for employee retention in the hospitality industry: A review." *Sustainability* 14, no. 5 (2022): 2885.
- [28] Holland, Denise, and Hugh Scullion. "Towards a talent retention model: mapping the building blocks of the psychological contract to the three stages of the acquisition process." *The International Journal of Human Resource Management* 32, no. 13 (2021): 2683-2728.
- [29] Kerdpitak, Chayan, and Kittisak Jermsittiparsert. "Psychological contract fulfillment as effective tool to shape employees' reactions: mediating role of organization justice." *Syst. Rev. Pharm* 11 (2020): 481-488.
- [30] Donkor, Ghulam Ahmed Bin, Godfrey Adda, and Mohammed Kweku Baidoo. "Leveraging on Motivation to Retain Employees: The Role of Psychological Contract." *International Journal of Business and Management* 16, no. 10 (2021): 40-54.
- [31] Malik, Alvy Riasat, and Azizur Rahman. "Psychological Contracts in the Changing World: Significant Actors and Factors from the Perspective of Employees and Organizations." *The International Journal of Business & Management* 9, no. 1 (2021).
- [32] Nayak, Sunanda, Debasish Jena, and Srikanta Patnaik. "Mediation framework connecting knowledge contract, psychological contract, employee retention, and employee satisfaction: An empirical study." *International Journal of Engineering Business Management* 13 (2021): 18479790211004007.
- [33] Jeswani, Saket, Durgesh Satpathy, Felix Chavez Jr, and Dinesh K. Sharma. "Psychological Contract Violation and Turnover Intention: Do Trust and Organizational Commitment Matter?." *FIIB Business Review* (2023): 23197145231194146.
- [34] Baruch, Yehuda, and Denise M. Rousseau. "Integrating psychological contracts and ecosystems in career studies and management." *Academy of Management Annals* 13, no. 1 (2019): 84-111.
- [35] Sheehan, Cathy, Tse Leng Tham, Peter Holland, and Brian Cooper. "Psychological contract fulfilment, engagement and nurse professional turnover intention." *International Journal of Manpower* 40, no. 1 (2019): 2-16.
- [36] Buba, Mengistu Guliti, Ponduri Sb, Puligilla Prashanth Kumar, and B. Uma Maheswari. "Effects Of Work-Life Balance On Employee Job Satisfaction." *Educational Administration: Theory and Practice* 30, no. 5 (2024): 13512-13520.
- [37] Fitta, Ranisya, Fransisca IR Dewi, and Rita Markus Idulfilastri. "The Role of Job Insecurity and Organizational Commitment to Turnover Intention on Startup Employee." In *The 2nd Tarumanagara International Conference on the Applications of Social Sciences and Humanities (TICASH 2020)*, pp. 561-565. Atlantis Press, 2020.
- [38] Sadilla, Vhifin, and Ratri Wahyuningtyas. "The Effect of Reward and Recognition on Employee Engagement (Case Study at Pt. X Part Directorate H)." *International Journal of Engineering Technologies and Management Research* 10, no. 8 (2023): 19-32.
- [39] Phan Tan, Luc, and Lan Pham Xuan. "Examining the effect of a supportive work environment on volunteer retention: Job embeddedness as a mediator." *Journal of Workplace Behavioral Health* (2024): 1-23.
- [40] Purnomo, Indra, and Innocentius Bernarto. "JOB STRESS, JOB SATISFACTION, WORK ENVIRONMENT: EFFECTS ON ORGANIZATIONAL COMMITMENT AND IMPACT ON TURNOVER INTENTION." *JMBI UNSRAT (Jurnal Ilmiah Manajemen Bisnis dan Inovasi Universitas Sam Ratulangi)*. 10, no. 3 (2023): 2461-2472.
- [41] Rumpoko, Hendro, and Nur Fadrih Asyik. "The Influence of Organizational Environment, Work Motivation and Organizational Commitment on Intention to Quit Through Job Satisfaction of Four-Star Hotel Employees in Surabaya." *East Asian Journal of Multidisciplinary Research* 1, no. 10 (2022): 2321-2330.
- [42] Koshak, Aisha Khalil, Nadin Fahd Almadni, and Dana Monzer Rajkhan. "Job Satisfaction and Employees' Turnover Intentions (An Empirical Study of Universities in Saudi Arabia)." *Ijrsp* 5, no. 56 (2024): 236-262.
- [43] Das, Bidisha Lahkar, and Mukulesh Baruah. "Employee retention: A review of literature." *Journal of business and management* 14, no. 2 (2013): 8-16.
- [44] Guest, David E., and Neil Conway. "Communicating the psychological contract: an employer perspective." *Human resource management journal* 12, no. 2 (2002): 22-38.
- [45] Bokaii, Layal. "IMPACT OF TEAMWORK ON THE PERFORMANCE OF THE EMPLOYEES IN THE NON-GOVERNMENTAL SECTOR." *The EURASEANS: journal on global socio-economic dynamics* 2 (39) (2023): 45-58.
- [46] Farmanesh, Panteha, and Pouya Zargar. "Trust in leader as a psychological factor on employee and organizational outcome." In *The Psychology of Trust*. IntechOpen, 2021.
- [47] Suhartini, Tien, Muafi Muafi, Widodo Widodo, and John Suprihanto. "Generating sustainable organizational commitment of Indonesian Lecturers: The role of psychological contract through spiritual perspective." *Journal of Law and Sustainable Development* 11, no. 5 (2023): e748-e748.
- [48] De Vos, Ans, Dirk Buyens, and René Schalk. "Psychological contract development during organizational socialization: Adaptation to reality and the role of reciprocity." *Journal of Organizational Behavior: The*

- International Journal of Industrial, Occupational and Organizational Psychology and Behavior* 24, no. 5 (2003): 537-559.
- [49] Hardew, Ayatullah Kutub. "Dynamics of Employee Engagement in Psychology Bureau Companies." *Psikoborneo: Jurnal Ilmiah Psikologi* 12, no. 2 (2024): 196-204.
  - [50] Heath, Michele L., Erika N. Williams, and William Luse. "Breaches and buffers: Can meaningful work impact turnover during COVID-19 pandemic?." *Review of managerial science* 18, no. 1 (2024): 83-104.
  - [51] Firmansyah, Ridwan, and Nova Mardiana. "The effect of psychological contract breaches and self-efficacy on employee performance." (2023).
  - [52] De Clercq, Dirk. "Psychological contract breaches, plans to quit, and destructive voice behavior: Catalytic effects of proactive personality." *European Management Journal* (2024).
  - [53] Azeem, Muhammad Umer, Sami Ullah Bajwa, Khuram Shahzad, and Haris Aslam. "Psychological contract violation and turnover intention: The role of job dissatisfaction and work disengagement." *Employee Relations: The International Journal* 42, no. 6 (2020): 1291-1308.
  - [54] Gillani, Alvina, Smirti Kutaula, and Pawan S. Budhwar. "Psychological contract breach: Unraveling the dark side of business-to-business relationships." *Journal of Business Research* 134 (2021): 631-641.
  - [55] Baiyeshea, David, and Frances-Louise McGregor. "Navigating evolving employment realities: an integrative model of psychological contract in contemporary workplaces." *SN Business & Economics* 4, no. 12 (2024): 156.
  - [56] Vogelgesang, Gretchen R., Craig Crossley, Tony Simons, and Bruce J. Avolio. "Behavioral integrity: examining the effects of trust velocity and psychological contract breach." *Journal of Business Ethics* 172 (2021): 175-190.
  - [57] Herrera, Juan, and Carlos De Las Heras-Rosas. "The organizational commitment in the company and its relationship with the psychological contract." *Frontiers in Psychology* 11 (2021): 609211.
  - [58] Somogyvari, Gabor. "But Wait, Before You Go... the Effect of Psychological Contract Breach on Employee Commitment Targets and Retention." PhD diss., Université Laval, 2022.
  - [59] Dick, Danielle Kayleigh. "Effects of psychological contract breach on work engagement and intention to quit." Master's thesis, University of Johannesburg (South Africa), 2022.
  - [60] Kaya, Bahar, and Osman M. Karatepe. "Attitudinal and behavioral outcomes of work-life balance among hotel employees: The mediating role of psychological contract breach." *Journal of Hospitality and Tourism Management* 42 (2020): 199-209.
  - [61] S. Jay. "fixing a broken " <https://www.aihr.com/blog/psychological-contract/> (accessed).
  - [62] Dhanpat, Nelesh, and Sanjana Brijball Parumasur. "Re-establishing the psychological contract as a precursor to employee retention." *Problems and Perspectives in management* 12, Iss. 4 (2014): 78-90.
  - [63] Carroll, Michael, and Rachel Tribe. "Psychological contracts: Hidden agreements in life and at work." *The Handbook of Professional Ethical and Research Practice for Psychologists, Counsellors, Psychotherapists and Psychiatrists* (2020): 23-36.
  - [64] Xu, Yunfei, Han Wang, Yong Zhang, and Yan Chang. "Psychological Contract Management Strategy of Knowledge Workers in Boundaryless Career Era." In *2021 International Conference on Enterprise Management and Economic Development (ICEMED 2021)*, pp. 383-386. Atlantis Press, 2021.
  - [65] Cao, Yinyin, Junghyun Lee, and Marie Waung. "Cultivating organizational attraction: A resource view on psychological contracts of career development among interns." *Personnel Review* 52, no. 1 (2023): 58-73.
  - [66] MM, Sulphay. "Influence of empowerment, psychological contract and employee engagement on voluntary turnover intentions." *International Journal of Productivity and Performance Management* 70, no. 2 (2021): 325-349.
  - [67] Corder, Emma, and Linda Ronnie. "The role of the psychological contract in the motivation of nurses." *Leadership in Health Services* 31, no. 1 (2018): 62-76.
  - [68] Hammouri, Qais, Asmahan Majed Altaher, Ahmad Rabaa'i, Heba Khataybeh, and Jassim Al-Gasawneh. "Influence of psychological contract fulfillment on job outcomes: A case of the academic sphere in Jordan." *Problems and Perspectives in Management* 20, no. 3 (2022): 62.