

**PSYCHOLOGICAL CONTRACT: MEASURING THE IMPACT
OF EMPLOYERS' INDUCEMENTS AND EXPECTATIONS ON
EMPLOYEES' WORK-LIFE BALANCE AND LOYALTY**

*Dr.Ashique Ali Jhatial
Dr.Noor Muhammad Jamali
Dr.Javed Ahmed Chandio
Ashfaq Ali Banbhan*

ABSTRACT

This study seeks to measure impact of employers' inducements to and expectations from employees through structural equation modeling (SEM). Drawing upon 160 self-administered questionnaires completed by senior to junior managers from healthcare, banking and IT sectors, this study predicts employers' inducements as directly proportional to work-life balance and loyalty at work. Likewise,, the absence of employers inducements and expecting more from employees is inversely proportional to work-life balance and loyalty. Study offers policy implications for employers, managers and decision-making quarters to establish balance between inducements and expectations from employees for better work-life balance and earning loyalty of employees.

Key words: Psychological contract, Employers, Inducements, Expectations, Work-life balance, Loyalty, Structural equation modeling

INTRODUCTION

The psychological contract (PC) has earned increasing attention as a relevant construct to measure employee attitudes and behaviours like commitment, turnover, loyalty, work-life balance and organizational citizenship behaviours (e.g., Conway & Briner 2005; Lester, Turnley, Bloodgood, & Bolino 2002; Robinson & Morrison 1995; Turnley & Feldman 1999 & 2000). Earlier, Rousseau (1989) defined PC as an exchange agreement between employees and employers' conviction regarding the terms and conditions of employment. David Guest and Conway (1997 & 1998) also suggested that while starting career, employees often evaluates many of their experiences, expectations, responsibilities, authority, pay benefits and career growth, which employers use as inducements. An increasing body of knowledge published in extant literature attended employees' perceptions and responses to

psychological contract formation and breach (Lester *et. al.* 2002; Robinson & Morrison 2000). Nevertheless, the process of psychological contract is yet in developmental stage which required more robust empirical attention. To date most research has attended exclusively to employer inducements and employee contributions (Millward & Brewerton 1997). Though previous research has mainly focused on ways and means PC is communicated and mutual expectations of employees-employers from each other. Similarly, most of the studies have been undertaken in western and developed countries by neglecting its generalization and application in developing countries' context. This raises several academic and research questions on the generalization of PC theory at larger canvas. This study has reviewed literature extensively on the subject under investigation and identified that there is acute shortage of empirical research undertaken or published in Pakistan. As a result, this study attends to this research gap by contributing empirical evidence which has been analyzed through sophisticated analytical technique of structural equation modeling by using Smart PLS software.

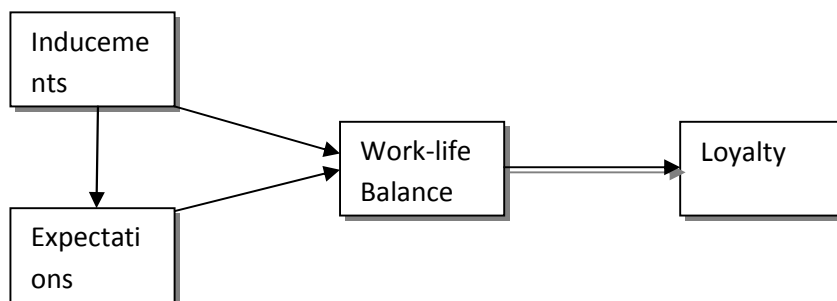
THEORETICAL FRAMEWORK

An increasing amount of psychological contract research focuses on inducements and expectations of employers. Similarly, research has also attended the consequences and grievances of unmet inducements and expectations on the part of either employee or employer. Review of the extant literature indicates that researchers have paid more attention on inducements received by the employee and the inducements employer promised (Lisa, Jeffrey & Deniel 2003). There are several inducements that appear in PC's framework (Kickul 2001; Robinson, Kraatz and Rousseau 1994). For example; pay has been considered as the primary reward for the employee work done in the firm (Lawler 1981; Simon 1951). Similarly, recognition at workplace is central assumption of PC which qualifies employer trust in employees (Mayer, Davis and Schoorman 1995; Miller 1981; Stajkovic and Luthans 2001). Likewise, opportunities to establish network for social support (Baumeister and Leary 1995; Cohen and McKay 1984); roles, responsibilities and enrichment of work experiences are fundamental to PC (Hackman & Oldham 1975). Training and

skill development for career growth are last assumption of employees in PC from employer (Hackman & Oldman 1975; Rousseau 1997; Sullivan 1999; White 1959). Since PC signifies the inducements provided by the employer and the contributions made by the employee in organizations, some research pointed out that ongoing interaction between the employer and the employee at work earns employees loyalty if workload, career development, rewards deliver work-life balance. This study conceptualizes employers' inducements based on (a) career development (b) job content, (c) social atmosphere and (d) financial rewards. Likewise, we also operationalize employers' expectations from employees as (a) job role performed, (b) flexibility in attitude and (c) ethical behaviour. The consequent impact of these two constructs e.g. inducement and expectations generate work-life balance which ultimately destines in employees loyalty with organization. In light of the aforementioned discussion some of the following hypotheses are to be tested.

- H₁: Employers' inducements have significantly positive impact on work-life balance of employees.
- H₂: Employers' expectations have significantly positive impact on work-life balance of employees.
- H₃: Employers' inducements are directly proportional to employers' expectations.
- H₄: Work-life balance is directly proportional to employees' loyalty.

Figure-1
CONCEPTUAL FRAMEWORK DEPICTING EMPLOYERS'
INDUCEMENTS AND EXPECTATIONS AND THEIR IMPACT
ON WORK-LIFE BALANCE AND LOYALTY



Measures

A pool of nineteen items was adopted addressing key dimensions of the psychological contract e.g. career development, job content, social atmosphere and financial rewards that were assumed as employers' inducements for employees and their consequent impact on employees' work-life balance and loyalty was measured. Likewise, for employers' expectations (e.g. employee contributions), another construct was developed from 19 items focusing on performed job role, attitude flexibility and ethical behaviour. Answers were given on a seven-point Likert scale ranging from 'not promised at all' to 'promise to a very great extent'. These items and the content dimensions to which they refer were selected based upon previous work by Coyle-Shapiro & Kessler (2000) and Guest and Conway (1997, 1998).

RESEARCH METHOD***Data Collection and Sample Selection***

Preliminary version of this questionnaire was reviewed and discussed by peers and practitioners in healthcare, IT and banking employees. After making necessary corrections in the questionnaire, it was piloted with some 25 respondents to check content, face, and criterion validity of the instrument and then final version of the questionnaire was used in main study. The sample consisted of a diverse group of managers (see Table-1 for demographic details) in service industry. A total of 300 self-administered questionnaires were distributed personally in various healthcare, banks and IT sector firms. Some 201 questionnaires were received of which only 160 cases were usable.

Demographic Details

About 85 percent respondents' age ranged between 25 to 35 years. More than 82 percent of the respondents were male and 18 percent were female with 62 percent belonged to first-line management. Likewise, 63 percent respondents had up to 10 years of experience and 62 percent of the respondents believed they are in first line management. Some 49 percent respondents belonged to banking, 31 percent with ICT and 20 percent participated from healthcare sectors respectively.

Table-1
PERSONAL INFORMATION OF RESPONDENTS

Demographic Variables	Description	Sample size	Percentage
Age	25 to 35 years	135	85
	36 to 45 years	18	11
	46 to 60 years*	7	04
Gender	Male	131	82
	Female	29	18
Experience	Up to 10 years	101	63
	11 to 20 years	45	28
	21 to 30 years	14	09
Position in the organization**	TLM	07	04
	MLM	55	34
	FLM	98	62
Sector	Banking	78	49
	ICT	50	31
	Healthcare	32	20

* In Pakistan, formal retirement age for employee is 60 years (Khilji 2003).

** TLM stands for top-level management, MLM for middle-level management, FLM for first-line or supervisory level management.

RESULTS AND DISCUSSION

Structural Equation Modeling Through Smart PLS

A two-step approach to test the measurement model and path analysis was used to test the hypothetical model. SEM helped us to simultaneously test the hypotheses as direct and indirect paths of the model as well. SEM using Smart PLS was undertaken for this study. SEM enables confirmation of the measurement model by using confirmatory factor analysis and tests the relationships among constructs by using path analysis (Hair *et al.* 2010). Smart PLS was chosen for two main reasons. Firstly, it does not require the data to have multivariate normality (MVN). Secondly, small sample size of data is usable (Barclays *et al.* 1995). Smart PLS is similar to that of multiple regression i.e. maximize variance explained while ensuring that all linkages are statistically significant (Chin 1998; Gefen 2004). SEM analysis through Smart PLS was carried out to test structural model and hypotheses by adopting Hulland's (1999) two phase approach. In first phase we

addressed measurement model (Table-2) with cross loadings greater than 0.7. Subsequently, Convergent-Discriminant validity of the model was tested with comfortably higher scores in Table-3 (Hair *et al.* 2010).

Table-2
CROSS LOADINGS OF MEASUREMENT MODEL

Variables	CD	EB	FLX	FR	JC	JR	Loyalty	WL
CD1	0.933	-0.061	0.087	0.133	0.707	0.261	0.2081	0.121
CD2	0.940	-0.121	0.096	0.136	0.821	0.167	0.1495	0.083
EB1	-0.091	0.955	0.001	-0.042	-0.123	0.024	-0.031	-0.010
EB2	-0.098	0.975	0.031	-0.036	-0.14	0.022	-0.016	0.003
FLX2	0.082	0.008	0.932	-0.038	0.126	0.03	0.060	0.106
FLX3	0.094	0.017	0.901	-0.067	0.125	0.049	0.031	0.145
FLX4	0.094	0.026	0.925	-0.017	0.107	0.093	0.053	0.096
FR1	0.100	-0.055	-0.024	0.855	0.117	0.343	0.63	0.479
FR2	0.157	-0.028	-0.012	0.957	0.159	0.399	0.810	0.490
FR3	0.133	-0.029	-0.082	0.926	0.167	0.405	0.825	0.518
JC1	0.360	-0.090	0.131	0.156	0.732	0.315	0.255	0.236
JC2	0.887	-0.132	0.092	0.122	0.895	0.160	0.138	0.094
JR2	0.256	-0.019	0.076	0.395	0.272	0.889	0.666	0.560
JR3	0.111	0.055	0.029	0.358	0.150	0.900	0.554	0.556
JR4	0.244	0.028	0.070	0.381	0.297	0.915	0.57	0.512
SA1	0.157	-0.028	-0.012	0.957	0.159	0.399	0.810	0.490
SA2	0.133	-0.029	-0.082	0.926	0.167	0.405	0.825	0.518
SA3	0.128	-0.017	0.068	0.43	0.168	0.467	0.773	0.761
SA4	0.179	-0.002	0.163	0.427	0.197	0.790	0.720	0.569
WLB1	0.167	0.021	0.115	0.498	0.189	0.545	0.782	0.846
WLB2	0.065	-0.020	0.162	0.429	0.150	0.515	0.616	0.896
WLB3	0.051	-0.032	0.109	0.398	0.135	0.474	0.602	0.892
WLB4	0.078	0.016	0.050	0.545	0.146	0.549	0.668	0.850

Table-3 shows the convergent-discriminant validity of the measurement model. The correlations on the diagonal of Table-3 are higher than the correlations between the constructs. This shows greater convergence of measures on their intended constructs than on the unintended constructs, which demonstrates that the constructs were relatively distinct, well-operationalized and measure the hypothetical model adequately.

Table-3
CONVERGENT-DISCRIMINANT VALIDITY OF THE
MEASUREMENT MODEL

Construct	CD	EB	Expectations	FLX	FR	Inducements	JC	JR	Loyalty	WLB
CD	0.936									
EB	0.098	0.965								
Expectations	0.241	0.037	0.568							
FLX	0.098	0.019	0.446	0.919						
FR	0.144	-0.040	0.359	0.043	0.914					
Inducements	0.847	-0.117	0.395	0.076	0.599	0.665				
JC	0.817	-0.139	0.289	0.129	0.163	0.842	0.817			
JR	0.227	0.023	0.921	0.065	0.419	0.408	0.267	0.902		
Loyalty	0.189	-0.024	0.616	0.052	0.833	0.566	0.222	0.663	0.783	
WLB	0.108	-0.002	0.588	0.125	0.541	0.375	0.180	0.601	0.774	0.871

Table-4 depicts Average Variance Extracted (AVE), higher than 0.5 excepting ‘employers’ expectations’ which is less than threshold level (Fornell & Larcker 1981). The composite reliability is much better and above 0.7 threshold level suggested by (Nunnally 1978). Similarly, R^2 values of measurement model which are satisfactory and suggest that the model provides a good fit to the data. For Convergent validity, the AVE is greater than 0.5 for each construct. Internal Consistency reliability indicators load onto the constructs better than onto the other constructs. Although the R^2 is bit weaker however there are some objections to the use of R^2 in the literature. Likewise, Cronbach’s Alpha is well above 0.7.

Table-4
AVE, R-SQUARE AND ALPHA SCORES OF THE MODEL

Construct	AVE	Composite Reliability	R²	Cronbach's Alpha
CD	0.8778	0.9349	0.7184	0.8609
EB	0.9318	0.9647	0.0014	0.9283
Expectations	0.3227	0.7265	0.1561	0.7868
FLX	0.8463	0.9429	0.1994	0.9092
FR	0.8361	0.9386	0.3591	0.9011
Inducements	0.6427	0.8424	0	0.7847
JC	0.6690	0.8	0.7092	0.8212
JR	0.8138	0.9291	0.8499	0.8855
Loyalty	0.6145	0.8641	0.5994	0.7947
WLB	0.7599	0.9267	0.3707	0.8949

In second phase of data analysis, path analysis of the structural model was undertaken. For this, we re-sampled 300 times (bootstrap method) to obtain t-statistics and estimates of the standard deviations for the loadings and path coefficients (Chin 2000; Hair *et. al.* 2010; Hulland 1999). Tables 5 and 6 present the direct effects, total effects, t-statistics and p-values for all items in the measurement model with high loadings for most measures.

Table-5
TOTAL EFFECTS

Construct	Mean	Beta	St-Error	T-Statistics	P-value
Expectations -> EB	0.0295	0.2254	0.2254	0.1642	0.434861216
Expectations -> FLX	0.4059	0.2411	0.2411	1.8521	0.032666569
Expectations -> JR	0.9046	0.0538	0.0538	17.126	0.07.85285
Expectations -> Loyalty	0.4051	0.0641	0.0641	6.2978	0.0793736
Expectations -> WLB	0.5186	0.0776	0.0776	6.7191	0.0752689
Inducements -> CD	0.852	0.0372	0.0372	22.7803	0.0196249
Inducements -> EB	0.0029	0.0872	0.0872	0.1677	0.43348564
Inducements -> Expectations	0.3839	0.0789	0.0789	5.0087	0.0556856
Inducements -> FLX	0.1524	0.0918	0.0918	1.9225	0.02790844
Inducements -> FR	0.5888	0.1209	0.1209	4.9547	0.07158
Inducements -> JC	0.8451	0.035	0.035	24.0607	0.0332531
Inducements -> JR	0.3489	0.0795	0.0795	4.5812	0.0384567
Inducements -> Loyalty	0.2908	0.0634	0.0634	4.5927	0.0365702
Inducements -> WLB	0.3724	0.0787	0.0787	4.7782	0.0160374
WLB -> Loyalty	0.7803	0.0209	0.0209	37.0296	0.016271

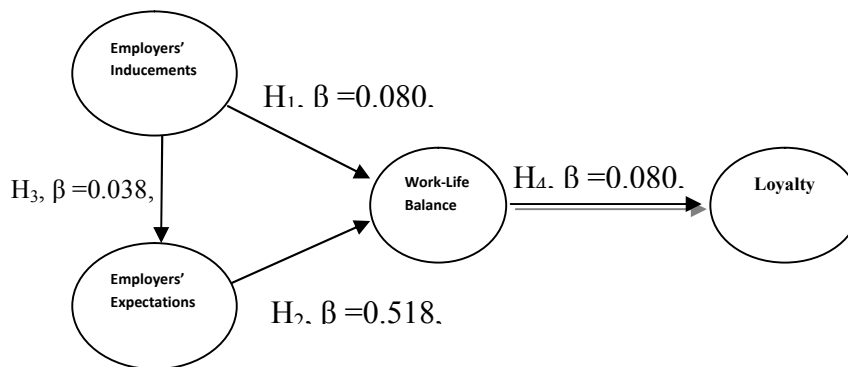
Table-6
DIRECT PATH EFFECTS

Construct	Mean	Beta	St-Error	T-Statistics	P-value
Expectations -> EB	0.0295	0.2254	0.2254	0.1642	0.434861216
Expectations -> FLX	0.4059	0.2411	0.2411	1.8521	0.032666569
Expectations -> JR	0.9046	0.0538	0.0538	17.126	0.0785285
Expectations -> WLB	0.5186	0.0776	0.0776	6.7191	0.0752689
Inducements -> CD	0.852	0.0372	0.0372	22.7803	0.019624
Inducements -> Expectations	0.3839	0.0789	0.0789	5.0087	0.0556856
Inducements -> FR	0.5888	0.1209	0.1209	4.9547	0.07158
Inducements -> JC	0.8451	0.035	0.035	24.0607	0.033253
Inducements -> WLB	0.1739	0.0815	0.0815	2.0842	0.019140
WLB -> Loyalty	0.0803	0.0209	0.0209	37.0296	0.016271

Hypotheses testing

Figure-2 presents the structural model of psychological contract depicting that employers' inducements are directly proportional to employees' work-life balance and loyalty. H_1 tested the relationship of employers' inducement with work-life balance of employees at work. A positive and significant relationship for employers' inducements was found with employees work-life balance with $\beta = 0.080$; $p = 0.019$. Likewise, H_3 tested relationship of employers' inducements are directly proportional to employers' expectations. A positive and significant relationship was found with $\beta = 0.038$; $p = 0.055$. H_2 tested the relationship of employers' expectations with employees work-life balance. A negative and significant relationship was found with $\beta = -0.518$; $p = 0.075$. Lastly, H_4 tested the relationship between work-life balance and employees' loyalty. A positive and significant relationship was found with $\beta = 0.080$; $p = 0.016$.

Figure-2
MODEL OF PREDICTING EMPLOYERS' INDUCEMENTS AND
EXPECTATIONS AND CONSEQUENT IMPACT ON
EMPLOYEES' WORK-LIFE BALANCE AND LOYALTY



CONCLUSION

This study employed PLS SEM to test measurement model predicting the impact of employers' inducement and expectations on employees' work-life balance and loyalty. PLS SEM technique was particularly chosen in this study to confirm the conceptual framework e.g. measurement model proposed from the literature. PLS SEM approach was adopted in preference to a Covariance-based SEM e.g. AMOS/LISREL as it can accommodate small sample size and has no distributional requirements. The structural model Figure-2 presented results from fitting the SEM to the data. All four hypotheses were supported at $\alpha = .05$ level. The direct effects of path results in Table-6 indicate that employers' inducements bear strong and significant impact on employees' work-life balance and loyalty at work. On the contrary, employers' expectations *alone* are inversely proportional to employees' work-life balance and loyalty. The model in Figure-2 portrays that employers need to understand workplace dimensions, changing attitudes of employees and also understand that expectations *alone* may not bring positive results. The empirical evidence suggest that apart from fair-play of HRM management pay due attention to establish balance between employees' work and family life which earns organizations employees loyalty and talented manpower intends not to quit. Findings discussed above imply decision-makers and management to create and maintain culture of self-esteem, trust, and equal treatment. Apart from other employers' inducements self-esteem, trusting relationship and equality will help maintain work-life balance and earns employees loyalty with organization. Consequently, promotion of such workplace culture would destine in the enhancement employee satisfaction, loyalty, commitment and mutual respect to pave the way for healthy workplace and psychological contract with elements of organizational citizenship behaviour, happy employees and competitive advantage stay in the organizations.

REFERENCES

- Barclays, D., Higgins, C., & Thompson, R. (1995). Partial Least Squares (PLS) Approach to Causal Modeling: Personal Computer Adoption and Use as an Illustration. *Technology Studies*, Vol.2, No.2, pp.285-309.
- Baumeister R.F., & Leary MR. (1995). The Need to Belong: Desire for Interpersonal Attachments as a Fundamental Human Motivation. *Psychological Bulletin*, 117(3), 497-529.
- Chin, W. (1998). Issues and Opinion on Structural Equation Modeling, *MIS Quarterly*, 22 (1), pp. 7-16.
- Cohen S., & McKay G. (1984). Social Support, Stress and the Buffering Hypothesis: A Theoretical Analysis. In Baum A, Taylor SE, Singer JE (Eds.), *Handbook of Psychology and Health* (pp.253-267). Hillsdale, NJ: Erlbaum.
- Conway, N. & Briner, R.B. (2005). Understanding Psychological Contracts at Work: A Critical Evaluation of Theory and Research, Oxford University Press, New York, NY.
- Coyle-Shapiro JAM, Kessler I. (2000). Consequences of Psychological Contract for the Employment Relationship: A Large Scale Survey. *Journal of Management Studies*, 37, 903-930.
- Gefen, D. (2004) What Makes an ERP Implementation Relationship Worthwhile: Linking Trust Mechanisms and ERP Usefulness, *Journal of Management Information Systems* 21 (1), pp.263-288.
- Guest, D., & Conway, N. (1997). Employee Motivation and the Psychological Contract (Issues in People Management No.21). London: Institute of Personnel and Development.
- Guest, D., & Conway, N. (1998). Fairness at work and the psychological contract (Issues in People Management). London: Institute of Personnel and Development.
- Hackman JR, & Oldham GR. (1975). Development of the Job Diagnostic Survey. *Journal of Applied Psychology*, 60, 159-170.
- Hair, J.F., Black, W.C. Babin, B. and Anderson, R.E. (2010). *Multivariate Data Analysis*, 7th Edition, Prentice Hall, ISBN 0138132631.
- Hulland, J. (1999). Use of Partial Least Squares (PLS) in Strategic Management Research: A Review of Four Recent Studies. *Strategic Management Journal* 20, 195-204.
- Kickul J. (2001). When Organizations Break Their Promises: Employee Relations to Unfair Processes And Treatment. *Journal of Business Ethics*, 29, 289-307.

- Lawler EE. (1981). Pay and Organization Development. *Reading, MA: Addison-Wesley*.
- Lester, S.W., Turnley, W.H., Bloodgood, J.M. and Bolino, M.C. (2002), "Not Seeing Eye to Eye: Differences in Supervisor and Subordinate Perceptions of and Attributions For Psychological Contract Breach", *Journal of Organizational Behavior*, Vol.23, pp.39-56.
- Lisa Schurer Lambert, Jeffrey R. Edwards, & Daniel M. Cable (2003). *Breach And Fulfillment of the Psychological Contract: A Comparison of Traditional and Expended Views*.
- Mayer, R.C., Davis, J.H. & Schoorman, F.D. (1995). An Integrative Model of Organizational Trust. *The Academy of Management Review*, 20, 709
- Miller, S. (1981). Predictability and Human Stress: Toward A Clarification of Evidence and Theory. In Berkowitz L (Ed.), *Advances in Experimental Social Psychology* (Vol.14, pp.203-256). New York: Academic Press.
- Milward, L. J., & Brewerton, P. M. (1999). Contractors and Their Psychological Contracts. *British Journal of Management*, 10, 253-274.
- Nunnally, J.C. (1978) *Psychometric Theory*, McGraw-Hill, New York.
- Robinson, S.L. and Morrison, E.W. (1995), "Psychological Contracts and OCB: the Effect of Unfulfilled Obligations on Civic Virtue Behavior", *Journal of Organizational Behavior*, Vol.16, pp.289-98.
- Robinson, S.L. Kraatz MS, & Rousseau DM. (1994). Changing Obligations and the Psychological Contract: A Longitudinal Study. *Academy of Management Journal*, 37, 137.
- Robinson, S.L., & Morrison, E.W. (2000). The Development of Psychological Contract Breach and Violation: A Longitudinal Study. *Journal of Organizational Behaviour*, 21, 525-546.
- Rousseau, D.M. (1989). Psychological and Implied Contracts in Organizations. *Employee Responsibilities and Rights Journal*, 2(2), 121-139.
- Rousseau, D.M. (1997). Organizational Behaviour in the New organizational era. *Annual Review of Psychology*, 48, 515-546.
- Simon, H.A. (1951). A formal theory of the employment relationship. *Econometrica*, 19, 293-305.
- Stajkovic, A.D., Luthans F. (2001). Differential Effects of Incentive Motivators on Work Performance. *Academy of Management Journal*, 44, 580-590.

- Sullivan, S.E. (1999). The Changing Nature of Careers: A Review and Research Agenda. *Journal of Management*, 25, 457-484.
- Turnley, W. H., & Feldman, D. C. (1999). The Impact of Psychological Contract Violations on Exit, Voice, Loyalty and Neglect. *Human Relations*, 52, 895-922.
- Turnley, W. H., & Feldman, D. C. (2000). Re-examining the Effects of Psychological Contract Violations: Unmet Expectations and Job Dissatisfaction as Mediators. *Journal of Organizational Behaviour*, 21, 25-42.
- White, R.W. (1959). Motivation Reconsidered: The Concept of Competence. *Psychological Review*, 66, 297-333.
-