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**The role of perceived employer obligations in the interpretation of - and  
reaction to - expatriate compensation practices**

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## **The role of perceived employer obligations in the interpretation of - and reaction to - expatriate compensation practices**

### **Abstract**

In this paper I examine the relationship between expatriates' perceptions of their compensation package and their affective commitment. The results of this cross-sectional study amongst 263 Finnish expatriates suggest the mediating role of the employee's perceptions of fulfillment of their employer obligations. This leads to the consideration that employees systematically assess their total reward package, interpret and give meaning to these compensation signals in terms of fulfillment of perceived employer obligations and simultaneously re-adapt or adjust their attitudes at any moment through their exchange relationship. In addition, this study gives empirical support for some of Rousseau and Ho's (2000) theoretical arguments regarding psychological contract (PC) issues in compensation. Furthermore it provides evidence that three of the PC feature measures for employer obligations developed by Janssens, Sels and Van den Brande (2003) can be replicated. Finally the implications of these findings for future research are discussed.

**Keywords:** psychological contract, total reward, affective commitment, meaning, expatriate

## 1. INTRODUCTION

The role of human resource management (HRM) in supporting the corporate strategy and creating a sustainable competitive advantage has been the focus of much academic research over the past three decades. Researchers have especially examined the mechanisms linking HRM practices to organizational outcomes such as performance. At the same time researchers, such as Guest (1999), have raised the concern of HRM reflecting a management agenda that neglects workers' concerns and called for psychological approaches to HRM which would take workers' views and perceptions on HRM. Storey (1989) also stressed that there is a need to understand the impact of employment practices upon people "who are deemed to be the recipients of the array of messages and initiatives" to be able to properly design and implement efficient and effective HR practices to support the corporate strategy. An individual perspective to HRM seems thus needed. In other words research needs to examine how HRM practices such as recruitment and selection, performance management, training and development as well as compensation and rewards used to induce and direct the work, attitudes and behaviors of employees are actually perceived and interpreted by employees and how they impact of their attitudes and behaviors

Compensation and rewards practices may differ from other practices as they seem to be amongst the most distinctive, salient and earliest interpreted practices from the perspective of employees since compensation often constitutes their main source of income (Rousseau and Ho, 2000). As early as the recruitment process for a job or assignment, compensation practices already signals and communicates the terms, the nature and the potential of the employment relationship (Bloom & Milkovich, 1996, Guzzo and Noonan, 1994). The terms of this exchange agreement between the individual and the organization define the psychological contract (PC) (Rousseau, 1995). This construct describes employees' and employers' perceptions of the other party's obligations. From the employee's perspective, this construct "accounts for the perceived promises that employees believe their organizations have made to them" (Dulac, Coyle-Shapiro, Henderson &, Wayne, 2008: 1079). Thus, based on their understanding of this exchange agreement, employees not only perceive the reciprocal obligations involved in this exchange, but also evaluate the state of their psychological contract (SPC) (Guest, 2004) throughout their employment relationship (Schein, 1978).

Research findings (Robinson, 1996; Tekleab, Takeuchi & Taylor, 2005; Dulac et al., 2008) suggest that an employee's cognitive assessment of what they receive relative to what they had understood was promised to them shapes their attitudes and behaviors towards their employers. The negative SPC, i.e. a perceived "breach" (Robinson, 1996; Robinson & Morrison, 2000) of the psychological contract and its link to employees' behavior and attitudes has been the subject of much research.

In the context of expatriation, organizations spend lots of time and money designing compensation practices aimed at attracting, motivating and retaining their talented employees. Still, the turnover of expatriates during and after assignments shows the limits of such practices of compensation and benefits. This raises the questions of how expatriates perceive and interpret compensation practices and, react to these perceptions.

Considering the important compensation efforts made by organizations and their outcomes in terms of expatriates' retention/turnover, the objective of the present paper is thus to examine the link between employees' SPC related to their total reward package (perceptions of discrepancy between what they had understood they would get and what they actually perceive receiving in terms of compensation and rewards) and their affective commitment.

By examining such a relationship it is aimed at contributing to the psychological contract theory development. To do so the theoretical arguments of Rousseau and Ho (2000) are applied, regarding the process used by employees to interpret HRM practices, i.e. compensation practices specifically. A total reward perspective is also applied to examine the link between cognition (SPC related to the total reward bundle), meaning (perceived degree of fulfillment of employer's obligations), and employee attitudes (level of affective commitment) at a given moment (Rousseau and Tijoriwala, 1998) made possible by cross-sectional data (Guest, 1999). The theoretical framework of the study is tested on a sample of 263 highly educated Finnish expatriates while abroad since compensation and commitment are two key issues in the management of expatriation and expatriate retention.

## **2. THEORY AND HYPOTHESIS DEVELOPMENT**

The expatriate compensation package, also known as the "total compensation package", has traditionally been studied from organizational and financial perspectives advocated by organizational control theories such as agency theory (Fama & Jensen, 1983; Jensen &

Meckling, 1976). Authors have thus discussed and described how employing organizations provide their expatriates with packages that include three main component categories: (1) fixed pay and flexible pay, (2) benefits, and (3) allowances (see e.g., Bonache 2005; Briscoe 1995; Dowling et al. 1994; Schell and Solomon, 1997; Suutari and Tornikoski, 2000). The special focus on the content of the compensation package can easily be explained by the complexity of such packages as well as the time and costs required in their design and management.

In this paper, I adopt an individual perspective on compensation by examining the expatriate compensation package from the international employee's point of view. In addition, I use a total reward approach. This approach implies that "each aspect of reward, namely base pay, contingent pay, employee benefits and non-financial rewards, which include intrinsic rewards from the work itself, are linked together and treated as an integrated and coherent whole" (Armstrong and Stephen, 2005: 13), embracing "everything that employees value in the employment relationship" (O'Neal, 1998). Consequently, this approach provides a much broader and more holistic perspective of the compensation package than the traditional total compensation approach. Furthermore it leads to the consideration of the whole expatriate package as a "bundle" (Bloom and Milkovich, 1996) of total rewards.

Compensation or return is a salient component of any social exchange relationship between two individuals (Blau 1964). In the context of expatriation the compensation package is the most concrete, visible and comparable expression of the exchange relationship between the geographically distant employer (organization anthropomorphized into the HR specialists and expatriate supervisors (Tornikoski 2011)) and the expatriate. Contrary to an employment relationship in a national context, the expatriate compensation package is much broader since it is supposed to cover the financial needs of the expatriates and their family (spouse and children). Its delivery is thus essential to expatriates not only because it represents the main signal of the continuity and state of their exchange relationship but also because many aspects of their live abroad really depends on it (Guzzo *et al*, 1994)

Psychological contract has been argued as a valuable construct to examine the employment relationship (Rousseau, 1995; Guest, 1999; Guest and Conway, 2002). It is essentially concerned with the individuals' beliefs regarding the terms and conditions of the exchange relationship between themselves and their employer, their perceptions of their reciprocal obligations (Rousseau, 1989). Each employee holds beliefs regarding the returns their employer has agreed (either implicitly or explicitly) to provide him/her in exchange for

his/her contribution. Foa and Foa (1975) calls this “ideal” returns (perceived by the employee here).

In the case of an international exchange relationship, the assignment terms and conditions are usually agreed on prior to the assignment. This agreement represents what Rousseau and Ho (2000:280) call the “cognitive statu quo” of the psychological contract related to the exchange relationship abroad, in other words it represents the negotiation basis on which expatriates rely. It represents the source of their understanding of what is expected from them (their obligations) and what they will get from their employer in return (their employers’ obligations).

Over time, throughout their international employment relationship, expatriates cognitively assess the state of their exchange relationship by comparing their subjective perceptions (accurate or not) of the actual HRM practices (compensation in this study) of their employer in comparison to their initial understanding. Therefore the “cognitive statu quo” becomes expatriates’ comparative referent (Adams, 1965). This assessment of their psychological contract leads to the notion of state of the psychological contract or SPC (Guest, 1998, 2004; Guest and Conway, 2002; Conway and Briner, 2005). This state is thus directly related to, and yet distinct from, their “psychological contract”. This concept is operationalized as employees’ perceived discrepancy between this “ideal” return and the “actual” one they perceive as receiving from the organization (i.e. HRM practices such as compensation and rewards in this paper). As in Robinson’s study (1996), thus the focus of this research is not the accuracy of the perception, but the employee’s subjective perception of this discrepancy.

In this paper, I posit that employees hold a “sub” psychological contract for each particular set of HRM practices after recruitment and selection (e.g. training, career development), and that they automatically and systematically<sup>1</sup> assess their discrepancies throughout the duration of their exchange relationship (Eagley and Chaiken, 1993) and not at certain times only as argued by Guzzo and Noonan (1994). Expatriates cognitively assess each of HRM practices during their exchange relationship. The interrelation of all these discrepancies provides the global SPC of the exchange relationship, which can be either relational, transactional transitional or balanced psychological contracts (Rousseau 1995, Rousseau & Ho, 2000).

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<sup>1</sup> “systematic assessment” because the challenging international context of their employment relationship keeps expatriates very sensitive to any change that would put their work and family life is at stake.

In their theoretical arguments regarding PC issues in compensation, Rousseau and Ho (2000) state that in their cognitive assessment of the terms of their PC, employees create meaning from the signals sent by the HRM practices. In other words, employees ascribe meaning to their exchange relationship expressed in terms of reciprocal obligations. The qualitative study by Pate and Scullion (2010) which focuses on the changing nature of expatriate' PC provides support to this statement. It shows that expatriates interpret their relationship based on their initial understanding of what they would get during and after their assignment. The authors show that pushed by cost pressures organizations tended to move expatriate compensation to local terms and conditions any time it was possible. Still, expatriates compared what they were experiencing to what the previous HRM practices of the organization had provided and on which they had based their understanding. Expatriates were extremely sensitive to the way assignment was managed, and the erosion of "the deal" being offered by their employer (Pate and Scullion 2010, 64). Most of expatriates were dissatisfied with the way their assignment was managed and this resulted in a high dissatisfaction and a perception of isolation and frustration. When comes to the compensation package, they perceived that their employers failed delivering their obligations toward them.

Following the previous development, it is expected, that while on assignment, expatriates, who perceive receiving more than what they had understood they would (based on their "statu quo" negotiation agreement related to their assignment), will perceive that their employers fulfill their obligations towards them. Consequently, the following hypothesis is formulated.

***H1: Expatriates' positive SPC related to their total reward package is expected to be positively related to the perceived fulfillment of their employers' obligations.***

Furthermore these systematic assessments or "judgments about the adequacy with which their PCs are fulfilled", as stated by Guzzo and Noonan, have important effects on employee commitment. This was confirmed by the results by Guzzo et al. (1994) who found that the perceived sufficiency of company practices (what they refer as "fulfilled psychological contract") mediated organizational practices and attitudes towards retention and organizational commitment. Due to the salient nature of compensation in the case of expatriate exchange relationship, it can be assumed here that expatriates' SPC related to expatriates' total reward package will be also related and their affective commitment (Allen &



Meyer, 1990).

***H2: Expatriates' positive SPC related to their total reward package is expected to be positive related their affective commitment.***

Pate and Scullion (2010) stress that if expatriates have traditionally have been managed through the provision of enhanced rewards packages and promised career acceleration, the imperative cost-reduction strategies that organizations have been facing for the past decades, do not allow them to offer the same “deal” (Coyle-Shapiro and Kessler, 2000) anymore. This change in expatriate arrangements may have not only led to a disparity of expectations among expatriates but also a breakdown of their psychological contract. Indeed Rousseau and Ho (2000) stress how past compensation practices have a sustained and long-lasting effect on psychological contracts as they become the basis upon what expectations are created. The sudden change in expatriate compensation practices without their consent may have led to a perceive violation of their PC. This consequently leads to a divergence in perceived obligations which may have great impact on expatriates' commitment. For instance, Dulac and Coyle-Shapiro (2008) showed for instance to a perceived violation of the PC had a strong negative effect on employees' affective commitment. Moreover research has found that merit based rewards for instance had the greatest impact on the psychological contract of highly professionals (Flood Turner, Ramamoorthy, and Pearson, 2001). Consequently, it can be assumed that there is a significant positive link between perceived fulfilled employers' obligations and expatriates' affective commitment (and vice versa).

***H3: Perceived fulfilled employers' obligations are positively related to expatriates' affective commitment.***

The model presented in Figure 1 shows that if the three hypotheses above are supported then the perceived employers' obligations might be assumed to mediate the relationship between the SPC related to expatriates' total reward package and there affective commitment. This would support the argument by Rousseau and Ho (2000) according to which the bundle of compensation components shapes the meaning that individuals ascribe to their exchange relationship (ibid: 283) and consequently and automatically adjust their attitude toward their

employer.

***H4: Perceived fulfilled employer's obligations are expected to mediate the relationship between expatriates' SPC related to their total reward package and their affective commitment.***

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*Insert Figure A1 about here*  
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The two following sections present the methodology as well as the results of this study.

### **3. METHODOLOGY**

#### ***3.1. Sample and data collection***

I tested my hypothesis using data collected through an online questionnaire. This online questionnaire was distributed during June-July 2007 amongst the 820 members of The Finnish Association of Business School Graduates (SEFE) who were working abroad at the time. These members were either assigned expatriates (AE, i.e. people sent abroad by their employer) or self-initiated expatriates (SIE, i.e. people who secured a job abroad on their own initiative). Hence, the sample included highly-educated people possessing at least a Master's degree in Economics and Business Administration in terms of formal education. They worked for very diverse companies located in at least 24 different countries, in a wide sector range. In total, 316 completed the questionnaire representing an overall response rate of 39%. The final usable sample was 263 (134 AEs and 129 SIEs).

#### ***3.2. Measures***

##### ***3.2.1. Dependent variable: Affective Commitment***

Affective commitment, determinant of intention to quit or stay in an organization, was measured using three reversed items from the revised version of the six-item measure by Meyer, Allen and Smith (1993). Previous research by Bentein, Vandenberghe, Vandenberg & Singhamber (2005) and Dulac et al. (2008) confirm the strong psychometric properties of

their revised measure. These three items are: “I do not feel like 'part of the family' at my organization” (R), “I do not feel 'emotionally attached' to this organization” (R), and “I do not feel a strong sense of 'belonging' to my organization” (R). Respondents answered using a 5-point Likert scale from “1 = strongly disagree” to “5 = strongly agree”. The reliability test for this three-item scale produced a Cronbach’s alpha of 0.82.

### 3.2.2. Mediating variable: Perceived degree of employer obligations

Although the theory about PC and its implied obligations has been well developed, Rousseau and Tijoriwala (1998) note that PC feature measures, i.e. measures of the dimensions and the related perceived obligations of PC, are underdeveloped. They consequently call for further research in this area due to the potential importance of these feature measures for understanding the process of communicating contract-related information. Two closely related studies by Janssens, Sels, & Van den Brande (2003) and Sels, Janssens, & Van den Brande (2004) answer this call for feature measures of PC. Building on the typology developed by Rousseau (1990:390, 1995) and the one by Shore and Barksdale (1998), these authors (2003: 1354-55 for quotations below) list six important dimensions (i.e. time frame, tangibility, scope, stability, exchange symmetry and contract level) defining and potentially differentiating psychological contracts. According to them, each of these dimensions can be expressed in terms of employer and employee obligations. Therefore the scales developed by Janssens, Sels and Van den Brande (2003) and Sels, Janssens and Van den Brande (2004) were used measure respondents’ perceptions of the fulfillment of their employer obligations in this study. These included the following ones (Janssens et al 2003: 1361): first, long-term involvement which represents the employees’ expectations concerning a long-term involvement by their employer; second, personal treatment which measures the extent to which the individual expects to be treated as a “person” and not merely as an economic resource; third, equal treatment assesses employee’s expectations regarding collective treatment of all employees by the employer; fourth, tangibility measuring the employer obligations regarding the clarity and transparency of the employee’s rights and obligations and the mutual arrangements in the context; and fifth, carefulness regarding arrangements which refers to which the employee expects that his /her employer attends to earlier agreed arrangements.

The authors’ original phrasings “*I expect from my employer that he...*” and “*My*

*employer can expect from me that I*” were modified to read “*Considering my overall employment relationship with my employer and what we have agreed on about this job/assignment abroad I consider that my employer...*” These modifications were considered necessary to obtain perceptions of obligations based on promises as Rousseau’s conceptual understanding of the psychological contract specifies. Indeed, Rousseau and Tijoriwala (1998: 680) argue:

*“by definition, a psychological contract is an individual perception. (...) Thus, in operationalizing the psychological contract, the focal individual can report on beliefs regarding his or her own obligations as well as beliefs regarding reciprocal obligations by another. The individual is the direct source of information regarding the contract because it is the perception of mutuality, not mutuality in fact, that constitutes a psychological contract. (...) Although all psychological contracts entail expectations that a person or a firm will act in a particular way, not all expectations are contractual. An important aspect of psychological contract is that the beliefs comprising that contract result from promises”.*

Thus, respondents were asked to indicate to what extent they agreed with the 17 statements describing their employer’s obligations (4 items for long-term involvement and for equal treatment as well as 3 items for tangibility, personal treatment, and carefulness) by rating them on a 5-point Likert scale from *strongly disagree* (1) to *strongly agree* (5). Examples of these statements relating to employers’ obligations include: *Considering my overall employment relationship and what we have agreed on about this job/assignment I consider that...(1) my employer offers me employment security; (14) my employer treats all employees at the same level equally, (17) my employer applies the same benefits to all employees at the same level.* Two items of the scale measuring employers’ “*long-term involvement*” were modified to read “*my employer makes a commitment to me in a long time perspective*” as well as “*my employer would offer me a transfer to another job should my current job disappear*” to better fit the sample of respondents as most of them had already been abroad for more than one year. Sole the employers’ obligations of personal treatment, equal treatment and long-term involvement were included in the analysis. Indeed they appear to be the main concerns of expatriates during the assignment (Pate and Scullion 2010; Bonache 2005). The Cronbach’s alpha of these three obligations was superior to 0.7. The respective Cronbach’s alphas of these three mediating variables are displayed in Table 1.

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*Insert Table A1 about here*  
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### **3.2.3. Independent variable: State of the psychological contract (SPC)**

To measure the SPC related to the total reward package the evaluation-oriented measure (Rousseau and Tijoriwala, 1998) developed by Tornikoski (forthcoming) was used to assess the discrepancy between the “status quo PC” and the perception of the actual delivery of their expatriate package by their employer. Respondents were asked to assess the rewards they received in comparison with what they and their employer had agreed upon when they had arranged their job/assignment abroad. They assessed 39 reward components according to a 7-point scale, where -3 = “*much less than I understood/thought it would be*”, the middle of the scale 0 = “*about the same as I thought it would be, or not concerned by this compensation item*”, and 3 = “*much more than I thought it would be*”.

The 39 items measuring total rewards components, together with the 11 items of three employer psychological obligations, were put through factor analyses using Promax rotation and Kaiser normalization in order to evaluate the internal and discriminant validity of the variables. The results (displayed in Table 1) show nine clearly distinct factors: six compensation factors (including 22 out of the 39 original items) and the three employer obligations. The six compensation factors represent six total reward component variables: Insurances, International Move Allowances, International Adaptation Allowances, Incentives, Intrinsic Rewards and Personal Social Rewards. The six obtained variables reflect the average of the mean item values. Finally, the SPC related to the total reward package corresponds to the mean of these six variable averages.

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*Insert Table A2 about here*  
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### 3.2.4. Control variables

Twelve control variables were included in the analysis to rule out potential alternate explanations for the findings. Table 3 presents the descriptive statistics and the correlations of all the variables used in the study. At the individual level of analysis, the respondents' *international profile* (AE = 1, SIE = 0), *age* and *gender* (1= male) were controlled since they could potentially explain differences in perception of the compensation package and related SPC (Barber and Bretz, 2000). *Marital status* (married or living with someone as a couple = 1; not married = 0) was also found to be significantly related to affective commitment. The level of base pay has been found to be positively related to both self-reported work performance and affective commitment. Therefore, the respondent's *monthly gross salary* was also controlled for. This control variable was accessed with continuous data (monthly gross salary for 2006 in Euros). Respondents' *hierarchical position* was also controlled for because AEs have been found to be more frequently employed at a higher managerial level than SIEs and a higher managerial position is usually related to higher organizational commitment and high status occupation has been found to perceive pay as less important (Barber & Bretz, 2000). Five hierarchical positions were considered, the fifth ('other') was used as a reference group. Four variables linked to expatriates experience were included as first, Feldman and Arnold, 1978) found experience with inversely associated with importance of pay and second experience has been found to impact on employees' affective commitment: *number of employers* (five categories with "one employer to date" as reference group), *tenure* in the current employing organization, *time spent on the current assignment/job* overseas and months of *international experience* in the respondent's career. On the organizational level of analysis, *firm size* was controlled for with four categories with "more than 20,001" as reference group. The last control variable made the distinction between whether the firm was *private or public* (reference group) because both variables might explain a difference in the coverage and quality of the standard compensation package offered to expatriates.

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*Insert Table A3 about here*  
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## 4. RESULTS

Following the recommendations by Baron & Kenny (1986) regarding the appropriate approach to testing mediation effects, three regression equations were used. The four conditions to be verified when testing a perfect mediating effect are as follows:

### *4.1. First equation: the independent variable must affect the mediating variable*

The results regarding the first equation for the three employer obligations are displayed in Table 3.

#### 4.1.1. Personal Treatment

Model 1 shows the link between the control variables and the perception of fulfillment of the employer obligation of treating their employees personally. This perception was positively and strongly linked to the hierarchical position of the respondents. The higher their position (top management), the higher their perception of being treated personally was ( $p < .01$ ). Respondents who worked in the private sector and had had several months of foreign experience before perceived that their employer treated them personally ( $p < .05$ ) in comparison with expatriates in the public sector and with no foreign experience. Female respondents as well as SIEs also appeared to perceive this fulfillment more than males and AEs did ( $p < .10$ ).

Model 1a shows that expatriates' SPC related to their total reward package is strongly and positively ( $\Delta R$  square= 0.066;  $\beta$ = 3.05;  $SD$ = 0.51;  $p < 0.001$ ) linked to their perception of fulfillment of their employer's obligation of personal treatment.

#### 4.1.2. Equal Treatment

Model 2 shows the link between the control variables and the perception of fulfillment of the employer obligation of treating their employees equally. Expatriates in organizations with up to 1.000 employees seem to strongly perceive they were not treated equally in comparison with expatriates in large organizations (more than 2.000 employees). This was also the case for expatriates whose tenure in the organization was low and for those who had changed employers more than five times in their whole career ( $p < .05$ ).

Model 2a shows that the relationship between expatriates' SPC related to their total reward package is and their perception of fulfillment of their employer's obligation of equal

treatment is positive and significant ( $\Delta R$  square= 0.023;  $\beta$ = 3.29; SD= 0.65;  $p < 0.05$ ).

#### 4.1.3. Long Term Involvement

Finally Model 3 shows how control variables relate to the perception of fulfillment of the employer obligation of long term involvement. As for equal treatment, expatriates in organizations with up to 1.000 employees seem to strongly perceive their employers did not invest in a long-term relationship with them ( $p < .001$ ) in comparison to expatriates employed in large organizations.

Model 3a shows that the relationship between expatriates' SPC related to their total reward package is and their perception of fulfillment of their employer's obligation of long term involvement is positive and significant ( $\Delta R$  square= 0.020;  $\beta$ = 4.2; SD= 0.62;  $p < 0.05$ ).

To sum up the results displayed in Table 3, Models 1a, 2a and 3a verify H1, the first necessary condition of a perfect mediating effect, i.e. the independent variable affects the mediating variables.

#### 4.2. Second equation: the independent variable must affect the dependent variable

Results for this second equation are displayed in Table 4. Model 4 shows the relationship between the control variables and expatriates' affective commitment toward their employing organization. The results indicate that the length international experience was positive and significantly related to the dependent variable ( $p < .05$ ). Moreover top managers appeared to be slightly more affectively committed to their employing organization ( $p < .10$ ) than expatriates in the reference group.

Model 4a shows that the relationship between the SPC related to the total reward package and affective commitment is strongly significant and positive ( $\Delta R$  square= 0.038;  $\beta$ = 2.69; SD= 0.63;  $p < 0.001$ ). This validates H2, the second condition when testing mediation.

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*Insert Table A4 about here*  
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#### 4.3. Third equation: the mediator must affect the dependent variable

The results regarding the relationship between perceived employer obligations and affective commitment are displayed in Table 5.

Model 4b shows that the relationship between the perceived obligation of personal treatment and affective commitment is strongly significant and positive ( $\Delta R$  square= 0.178;  $\beta$ = 1.06; SD= 0.62;  $p < 0.001$ ). Model 4c relating to the perceived obligation of equal treatment, the relationship with affective commitment is also positive and strongly significant ( $\Delta R$  square= 0.094;  $\beta$ = 1.74; SD= 0.64;  $p < 0.001$ ). Finally, the results regarding the third perceived employer obligation of long-term involvement in the relationship with the employee with the dependent variable is also positive and strongly significant ( $\Delta R$  square= 0.089;  $\beta$ = 1.42; SD= 0.67;  $p < 0.001$ ).

Consequently, these results verify H3, the third necessary condition of mediation testing: perceived employer obligations are related to affective commitment.

4.4. *“Once three equations are verified, the effect of the independent variable on the dependent variable must be less in the third equation than in the second one. Perfect mediation holds if the independent variable has no effect when the mediator is controlled (Baron & Kenny, 1986:1177)”.*

If we look at Tables 4 and 5, we see that the  $\Delta R$  square of the second regression (independent variable on affective commitment) is 0.38 and thus lower to the one of each of the three perceived employer obligations. Testing the mediation (see the last column of Table 5), Model 4e shows that once the three perceived employer obligations are controlled for, the relationship between the SPC related the total reward package and affective commitment is positive, but not significant. However, the relationship with affective commitment is positively and significantly related to the perceived fulfillment of personal treatment ( $\beta$ = .40; SD= 0.09;  $p < 0.001$ ) and long term involvement ( $\beta$ = .14; SD= 0.07;  $p < 0.05$ ) used as control variables.

Finally Baron & Kenny (1986: 1177) stress that “because the interdependent variable is assumed to cause the mediator, these two variables should be correlated”. When looking at

Table 2 we see that the SPC related to the total reward package is positively and strongly correlated with the three different perceived employer obligations.

All the previous results strongly support the hypothesis (H4) of perfect mediation of the relationship between the SPC related to their total reward package and their affective commitment by expatriates' perceived degree of fulfillment of their employer's obligations.

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*Insert Table A5 about here*  
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## **5. DISCUSSION AND CONCLUSION**

Overall, this study responds to the issue of how expatriates interpret and respond to compensation practices. This study tackles the challenge of understanding how actual HRM practices (i.e. compensation here) are perceived, how employees make sense of this sent HRM signal and how their interpretation affects their attitude. In other words these results allow understanding the HRM practice information processing at the individual level. They show that actual HRM practices such as compensation package delivery once assessed by the employee are ascribed a meaning in terms of perceived fulfilled employers' obligations. This interpretation leads automatically to employees' attitude response.

This quantitative study contributes to the development of psychological contract theory in several ways. First it provides empirical support to Rousseau & Ho's (2000) theoretical arguments regarding the cognitive and meaning creation process linked to the salient signals of compensation to employees. Second, due to the cross-sectional data in the study, the results show that employees systematically assess the compensation, interpret and give meaning to these signals in terms of fulfillment of their employer obligation (Guest, 1999), and simultaneously re-adapt or adjust their attitudes at any moment. Third the use an evaluation measure (cognition) to assess the SPC related to the total reward package linked to the feature measures (meaning) developed by Janssens et al. (2003) shows that total reward package signals to employees the state of their exchange relationship. Fourth, this study is one of the

first to use the feature measures of employer obligations developed by Janssens et al. (2003). It validates three of their scales and provides support to their possible replication in other cultures. Fifth but not last, the use of the total reward approach in this study answers the theoretical construct of bundle of rewards developed by Bloom and Milkovich (2006).

From a methodological point of view these quantitative findings show that to understand employees' HRM information processing the combination of evaluation-oriented measures with feature measures (Rousseau and Tijoriwala, 1998) is necessary. The use of these two different kinds of measures of the psychological contract allows giving the meaning to the discrepancy between "actual" and "perceived" HRM practices throughout the exchange relationship. Therefore even though this study focus on the HRM practice information interpretation at an individual level, the same methodology might be helpful to researchers aiming at operationalizing the macro-constructs of "psychological climate" and "organizational climate" (Bowen and Ostroff, 2004) based on individuals' perceptions and "variance of HRM practices" (Wright and Niishi, 2007) in SHRM studies.

These results have also important managerial implications. The results show that the "cognitive statu quo" of expatriates' psychological contract related to their expatriation is a referent to expatriates use to assess their exchange relationship while abroad. Tornikoski (forthcoming) showed that the link between SPC related to expatriates' total reward package and their affective commitment seems mainly explained by the presence of intangible particularistic rewards into the compensation bundle. Sole expatriates' managers who know best what their employees (based on past relationship) can include such "intangible" rewards, highly valued by their employees, as components of their expatriates' total reward package when negotiating the expatriate package, basis of the cognitive statu quo of expatriates' PC. Consequently, the relationship between these managers and the expatriates should be kept as steady as possible throughout the international assignment for the psychological contract not be broken in terms of delivery of these "invisible" rewards on with the expatriates' SPC holds most. Without contact with their managers engaged in the original negotiation of their assignment agreement, expatriates lose the people with whom this exchange of valued invisible returns was possible. It can be assumed, for future research to test this assumption, that expatriates then perceived that their employer's obligations are not fulfilled which leads consequently to a strong decrease of their affective commitment, and maybe turnover intentions.

This study was made possible thanks to a sample of highly educated Finnish expatriates from the Finnish SEFE Union. Future research could aim at replicating this study in other cultures to provides further support to its results.

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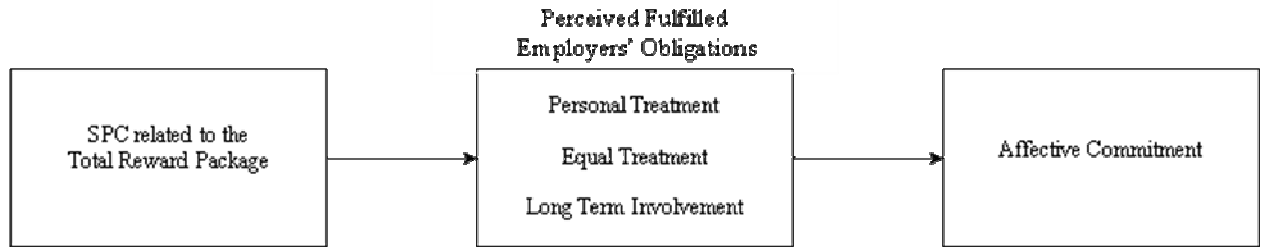
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## 7. APPENDIXES

Figure A1: Hypothesized model





**Table A1: Factor analysis of total reward components and employer obligations measuring instruments**

	Cronbach's Alphas	Pattern Matrix								% of total variance explained
Large Scope Responsibilities	.910	.894								<b>20.43</b>
Meaningful & Important Role		.885								
High Hierarchical Responsibilities		.868								
Challenging Work		.835								
Strategic Work		.798								
Accident Insurance	.892		.925							<b>12.23</b>
Health Insurance			.875							
Travel Insurance			.845							
Life Insurance			.818							
Personal Treatment 3	.832			.912						<b>10.35</b>
Personal Treatment 1				.867						
Personal Treatment 2				.694						
Equal Treatment 3	.846				.869					<b>6.92</b>
Equal Treatment 4					.866					
Equal Treatment 1					.716					
High Social Status Opportunities	.749					.869				<b>5.61</b>
High Professional Status Opportunities						.723				
Good Work-Life Conditions						.703				
Personal Psychological Rewards						.661				
Relocation Allowance	.785						.853			<b>5.07</b>
Removal Allowance							.846			
Lump Sum							.791			
Long Term Involv. 1	.745							.828		<b>4.53</b>
Long Term Involv. 4								.785		
Long Term Involv. 2								.708		
Cultural Training	.707								.834	<b>4.31</b>
Language Training									.770	
Language & Cultural Training for Relatives									.748	
Corporate Shares	.844								.933	<b>3.56</b>
Option Plans									.921	
<b>Total</b>										<b>73.01</b>

Extraction Method: Principal Component Analysis  
Rotation Method: Promax with Kaiser Normalization  
a Rotation converged in 6 iterations  
Scores under .37 are not displayed  
N=263

**Table A2: Descriptive statistics and correlations (to be continued)**

Variables	Mean	S.D	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1. Gender	0,62	0,49	1,00																			
2. Age	40,49	9,26	,15*	1,00																		
3. Married or living as a couple	0,74	0,44	,20**	,26**	1,00																	
4. Level of Monthly Gross Salary	8371,07	6512,28	,14*	,16*	,15*	1,00																
5. Months of Foreign Experience	89,90	81,21	,11	,61**	,18**	,10	1,00															
6. No. of Employers =2	0,22	0,41	,03	-,14*	,06	-,04	-,16**	1,00														
7. No. of Employers =3	0,25	0,43	,14*	-,05	,00	,01	-,07	-,30**	1,00													
8. No. of Employers =4	0,14	0,35	,01	,01	,10	,00	,11	-,22**	-,24**	1,00												
9. No. of Employers = or >5	0,29	0,45	-,11	,25**	-,06	,02	,19**	-,34**	-,37**	-,26**	1,00											
1. Top Management	0,14	0,34	,17**	,15*	,16**	,11	,08	,03	,00	,03	,02	1,00										
11. Upper & Senior Management	0,23	0,42	,24**	,16*	,12*	,09	,15*	-,05	-,02	,06	-,03	-,22**	1,00									
12. Middle Management	0,30	0,46	-,05	-,06	-,02	,05	-,05	-,01	,02	,01	-,04	-,26**	-,36**	1,00								
13. Technical Expert	0,30	0,46	-,29**	-,19**	-,22**	-,22**	-,13*	,02	,01	-,08	,05	-,26**	-,36**	-,43**	1,00							
14. Org. size <500 employees	0,19	0,40	,04	,12*	,07	-,07	,15*	-,03	-,10	-,01	,20**	,25**	,00	-,157*	-,07	1,00						
15. Org. size: 501-1.000 employees	0,26	0,44	-,05	-,04	,00	-,05	,04	-,06	,14*	-,05	,00	-,01	,10	-,09	,01	-,29**	1,00					
16. Org. size: 1.001-2.000 employees	0,11	0,31	-,01	,00	,07	,07	-,08	,09	-,11	,00	,03	-,07	-,01	,12	-,04	-,17**	-,21**	1,00				
17. Private / Public Sector	0,84	0,36	,12	-,12	,01	,05	-,18**	,12*	,03	,09	-,28**	,14*	,09	,13*	-,30**	-,08	-,10	,08	1,00			
18. Months in Current Org.	85,78	80,36	,04	,42**	,12*	,09	,28**	,10	,09	-,03	-,28**	,00	,09	,12	-,18**	-,13*	-,01	,10	,00	1,00		
19. Months on Current Job	52,51	61,96	,05	,44**	,09	,09	,69**	-,08	-,02	,10	,03	,03	,14*	-,08	-,06	,07	,03	-,07	-,11	,39**	1,00	
20. AEs / SIEs	0,51	0,50	,16**	,00	,07	,14*	-,19**	,15*	,03	-,03	-,31**	,06	,14*	,14*	-,28**	-,19**	-,04	,12	,21**	,37**	-,16**	1,00
21. SPC related to Total Rewards	0,35	0,57	,12	,03	-,02	,11	,14*	,00	,06	,00	-,05	,16*	,10	,00	-,203**	-,09	,00	,05	,04	,08	,25**	-,02
22. Personal Treatment	3,85	0,85	,00	-,02	,08	-,02	,06	,05	,05	,09	-,21**	,16*	,06	,07	-,22**	,03	-,08	,03	,27**	,00	,00	,01
23. EqualTreatment	3,38	1,01	,02	-,03	,04	-,01	,01	-,03	,10	,172**	-,21**	,11	-,03	,00	-,05	-,07	-,13*	,01	,12	-,09	,02	-,07
24. Long Term Involvement	3,65	0,95	-,03	,02	-,04	-,05	,03	,05	-,02	,09	-,12	,09	,00	,02	-,08	-,17**	-,12	,04	,01	,08	,08	,00
25. Affective Commitment	3,15	1,00	,10	,09	,03	-,05	,12	-,04	,13	,04	-,18**	,22**	,10	-,02	-,23**	,02	-,02	,06	,21**	,14*	,05	,11

\*. Correlation is significant at the .05 level (2-tailed). \*\* Correlation is significant at the .01 level (2-tailed). N=263

**Table A2: Descriptive statistics and correlations (continued)**

Variables	Mean	S.D	20	21	22	23	24	25
1. Gender	0,62	0,49						
2. Age	40,49	9,26						
3. Married or living as a couple	0,74	0,44						
4. Level of Monthly Gross Salary	8371,07	6512,28						
5. Months of Foreign Experience	89,90	81,21						
6. No. of Employers =2	0,22	0,41						
7. No. of Employers =3	0,25	0,43						
8. No. of Employers =4	0,14	0,35						
9. No. of Employers = or >5	0,29	0,45						
1. Top Management	0,14	0,34						
11. Upper & Senior Management	0,23	0,42						
12. Middle Management	0,30	0,46						
13. Technical Expert	0,30	0,46						
14. Org. size <500 employees	0,19	0,40						
15. Org. size: 501-1.000 employees	0,26	0,44						
16. Org. size: 1.001-2.000 employees	0,11	0,31						
17. Private / Public Sector	0,84	0,36						
18. Months in Current Org.	85,78	80,36						
19. Months on Current Job	52,51	61,96						
20 AEs / SIEs	0,51	0,50	1,00					
21. SPC related to Total Reward Package	0,35	0,57	-.02	1,00				
22. Personal Treatment	3,85	0,85	.01	,305**	1,00			
23. Equal Treatment	3,38	1,01	-.07	,21**	,50**	1,00		
24. Long Term Involvement	3,65	0,95	.00	,22**	,41**	,40**	1,00	
25. Affective Commitment	3,15	1,00	.11	,25**	,52**	,35**	,33**	1,00

\*. Correlation is significant at the .05 level (2-tailed).

\*\* . Correlation is significant at the .01 level (2-tailed).

N= 263

**Table A3: Results of the First Regression Equations**

Mediating Variables	Personal Treatment				Equal Treatment				Long Term Involvement			
	Model 1		Model 1a		Model 2		Model 2a		Model 3		Model 3a	
	Beta	S.E	Beta	S.E	Beta	S.E	Beta	S.E	Beta	S.E	Beta	S.E
Intercept	3.25***	.53	3.05***	.51	3.43***	.65	3.29***	.65	4.33***	.62	4.2***	.62
Gender	-.23†	.12	-.25*	.12	-.13	.15	-.14	.15	-.14	.14	-.15	.14
Age	.00	.01	.00	.01	.01	.01	.01	.01	.00	.01	.01	.01
Married or living as a couple	.05	.13	.11	.12	.03	.16	.07	.16	-.17	.15	-.13	.15
Level of Monthly Gross Salary	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
Months of Foreign Experience	.00*	.00	.00*	.00	.00	.00	.00	.00	.00	.00	.00	.00
No. of Employers =2	-.13	.20	-.16	.20	-.16	.25	-.18	.25	.05	.24	.03	.24
No. of Employers =3	-.09	.21	-.14	.20	.08	.25	.05	.25	-.11	.24	-.15	.24
No. of Employers =4	-.15	.22	-.16	.22	.19	.28	.18	.27	.07	.26	.06	.26
No. of Employers = or >5	-.55*	.23	-.58*	.22	-.62*	.28	-.63*	.28	-.28	.27	-.29	.27
Top Management	1.26**	.44	.97*	.42	.74	.54	.54	.54	.75	.51	.58	.51
Upper & Senior Management	1.04*	.42	.84*	.41	.40	.52	.26	.52	.34	.50	.22	.50
Middle Management	.97*	.42	.81*	.40	.41	.51	.30	.51	.21	.49	.11	.49
Technical Expert	.64	.42	.59	.40	.29	.51	.26	.51	-.05	.49	-.08	.49
Org. size <500 employees	.01	.16	.10	.16	-.38**	.20	-.32	.20	-.69***	.19	-.64**	.19
Org. size: 501-1.000 employees	-.16	.13	-.12	.13	-.44***	.16	-.42*	.16	-.50***	.16	-.48**	.16
Org. size: 1.001-2.000 employees	.04	.18	-.02	.18	.03	.23	-.01	.22	-.05	.22	-.08	.21
Private / Public Sector	.37*	.16	.43**	.16	.03	.20	.08	.20	-.31	.19	-.27	.19
Months in Current Org.	.00	.00	.00	.00	-.00*	.00	-.00*	.00	.00	.00	.00	.00
Months on Current Job	.00	.00	-.00*	.00	.00	.00	.00	.00	.00	.00	.00	.00
AEs / SIEs	-.24†	.13	-.20	.13	-.22	.16	-.19	.16	-.19	.16	-.16	.16
SPC Total Reward Package			.44***	.10			.31*	.13			.27*	.12
F Statistic	2.556***		3.542***		1,893*		2.130**		1.729*		1.906*	
R square	.196		.262		.153		.176		.141		.161	
Δ R square (vs. model 1)	-		.066		-		.023		-		.020	

Unstandardized coefficients are provided with standard errors      Significance levels:\*\*\*  $p < .001$ . \*\*  $p < .01$ . \*  $p < .05$ . †  $p < .10$       N=263

**Table A4: Results of the Second Equation**

Variables	Model 4		Model 4a	
	Beta	S.E	Beta	S.E
Intercept	2.88***	.64	2.69***	.63
Gender	-.02	.15	-.04	.14
Age	.00	.01	.00	.01
Married or living as a couple	-.12	.16	-.06	.15
Level of Monthly Gross Salary	-.00†	.00	-.00†	.00
Months of Foreign Experience	.003*	.00	.00*	.00
No. of Employers =2	-.33	.25	-.36	.24
No. of Employers =3	.03	.25	-.02	.24
No. of Employers =4	-.20	.27	-.21	.27
No. of Employers = or >5	-.469†	.28	-.49†	.27
Top Management	.91†	.53	.65	.52
Upper & Senior Management	.44	.51	.26	.50
Middle Management	.22	.50	.08	.49
Technical Expert	.05	.50	.00	.49
Org. size <500 employees	.00	.19	.08	.19
Org. size: 501-1.000 employees	-.05	.16	-.01	.16
Org. size: 1.001-2.000 employees	.25	.22	.20	.22
Private / Public Sector	.32	.20	.38†	.19
Months in Current Org.	.00	.00	.00	.00
Months on Current Job	.00	.00	-.00†	.00
AEs / SIEs	-.06	.16	-.02	.16
SPC Total Reward Package			.39***	.12
F Statistic	2.216**		2.675***	
R square	.174		.212	
Δ R square (vs. model 2)			.038	

a. Dependent Variable: Affective Commitment

Unstandardized coefficients are provided with standard errors

Significance levels: \*\*\*  $p < .001$ . \*\*  $p < .01$ . \*  $p < .05$ . †  $p < .10$

N=263

**Table A5: Results of the Third Regression Equations and Perfect Mediation Testing Regression**

Variables	Third Regression Equations								Perfect Mediation Testing	
	Model 4		Model 4b		Model 4c		Model 4d		Model 4e	
	Beta	S.E	Beta	S.E	Beta	S.E	Beta	S.E	Beta	S.E
Intercept	2.88***	.64	1.06†	.62	1.74*	.64	1.42*	.67	.50	.64
Gender	-.02	.15	.10	.13	.02	.14	.02	.14	.10	.13
Age	.00	.01	.00	.01	.00	.01	.00	.01	.00	.01
Married or living as a couple	-.12	.16	-.15	.14	-.13	.15	-.06	.15	-.10	.14
Level of Monthly Gross Salary	-.00†	.00	.00	.00	-.00†	.00	.00	.00	.00	.00
Months of Foreign Experience	.003*	.00	.00	.00	.00*	.00	.00*	.00	.00	.00
No. of Employers =2	-.33	.25	-.25	.22	-.27	.23	-.34	.23	-.28	.21
No. of Employers =3	.03	.25	.08	.22	.00	.23	.06	.23	.05	.22
No. of Employers =4	-.20	.27	-.12	.24	-.26	.26	-.22	.26	-.18	.24
No. of Employers = or >5	-.469†	.28	-.16	.25	-.26	.27	-.38	.26	-.14	.25
Top Management	.91†	.53	.20	.48	.66	.50	.66	.50	.12	.47
Upper & Senior Management	.44	.51	-.14	.46	.31	.48	.33	.48	-.13	.45
Middle Management	.22	.50	-.32	.45	.08	.47	.15	.48	-.29	.44
Technical Expert	.05	.50	-.31	.45	-.05	.48	.06	.48	-.25	.44
Org. size <500 employees	.00	.19	-.01	.17	.12	.18	.23	.19	.17	.18
Org. size: 501-1.000 employees	-.05	.16	.04	.14	.10	.16	.12	.16	.16	.15
Org. size: 1.001-2.000 employees	.25	.22	.23	.20	.24	.21	.27	.21	.22	.19
Private / Public Sector	.32	.20	.12	.18	.31	.19	.43*	.19	.24	.18
Months in Current Org.	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
Months on Current Job	.00	.00	.00	.00	.00	.00	-.00†	.00	.00	.00
AEs / SIEs	-.06	.16	.08	.14	.02	.15	.01	.15	.10	.14
Personal Treatment			.56***	.07					.40***	.09
Equal Treatment					.33***	.06			.12†	.07
Long Term Involvement							.34***	.07	.14*	.07
SPC Total Reward Package									.14	.12
F Statistic	2.216**		5.416***		3.987***		3.549***		5.381***	
R square	.174		.352		.268		.263		.385	
Δ R square (vs. model 2)			.178		.094		.089		.211	

a. Dependent Variable: Affective Commitment

Unstandardized coefficients are provided with standard errors

Significance levels: \*\*\*  $p < .001$ . \*\*  $p < .01$ . \*  $p < .05$ . †  $p < .10$ 

N = 263