

**FROM SECURITY TO MOBILITY:
AN EXAMINATION OF EMPLOYEE
COMMITMENT AND AN EMERGING
PSYCHOLOGICAL CONTRACT**

by

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ABSTRACT

The traditional employment relation maintained a well defined psychological contract: Job *security* was exchanged for employee commitment. This paper empirically examines an emerging, alternative contract: the exchange of commitment for firm investments that enhance employee *mobility*. We examine this contract and test its impact on employee commitment.

(Keywords: Employment Relation, Commitment, Psychological Contract)

INTRODUCTION

“...There is a massive and fundamental shift underway, leading managers away from the unwavering commitment of time and energy that long have been seen as a hallmark of life in the corporation.”
(Hirsch, 1987:99)

“Contemporary employment relationships are in transition...psychological contracts can, when violated, generate distrust, dissatisfaction, and possibly the dissolution of the relationship itself.”
(Robinson and Rousseau, 1994:245)

“Yes, the old contract between company and employee is dead. Yes, corporate loyalty will probably cease to exist. But eventually some new ethos will replace those values and will be as widely accepted—and as taken for granted—as the old social contract.”
(Fortune, April, 1996 cover story)

The state of the contemporary employment relation continues to attract widespread attention, as the quotes above suggest. Of particular concern is the condition of the psychological contract between employees and employers (Argyris, 1960; Rousseau, 1989; Rousseau and Parks, 1993; Robinson, Kraatz and Rousseau, 1994), that is, the beliefs in the terms of exchange underlying the relationship. The employment relation for much of this century has been characterized by a remarkably clear psychological contract. Although few firms have codified its terms, the psychological contract involved the exchange of employee commitment and loyalty for employment security within the firm. Because of its longevity, prominence, and perhaps simplicity, it has taken on a social and moral quality readily identified by employers and employees alike (Waterman, Waterman and Collard, 1994). These qualities, however, have also ensured that any attack on the traditional employment relation would be all the more conspicuous.

Two recent trends have served to undermine the traditional employment relation. First, the recent and widespread practice of corporate restructuring and downsizing (Hirsch, 1987; Cameron, Freeman and Mishra, 1991; Cameron, Freeman and Mishra, 1993) is commonly seen as the most blatant breach of the traditional employment relation (Nocera, 1996). “Restructuring and Downsizing,” in a few words, capture the widespread belief that employment security is a thing of the past (Hirsch, 1987; Tichy and Charan, 1989; Waterman, Waterman and Collard, 1994). Second, there has been a steady trend towards both smaller, professional service organizations (Carroll, 1994), who in many cases outsource their services to larger clients, as well as the externalization of work more generally (Pfeffer and Baron, 1988; Pfeffer, 1994). This has meant that more and more “employees” of firms are operating outside of its immediate control (locationally, temporally, and administratively) and may be less likely to closely identify with the firm (Pfeffer and Baron, 1988).

These trends have created at least two immediate problems for the contemporary employment relation. At the firm level, companies are faced with the potential for *diminishing commitment and loyalty*, particularly problematic amidst dynamic competitive environments, where commitment, loyalty, and the extra-role behaviors they may induce are at a premium (Heath, Knez and Camerer, 1993). At the individual level, employees are more likely to be forced to enter (or are already facing) increasingly competitive and hostile job markets, *increasing their needs for general skill development and mobility*. Where such general skill development is lacking, the likelihood of longer, and more costly, unemployment is higher, accentuating this socio-economic problem while adding to the psychological stress felt by employees under such relational contexts. What can be done about the contemporary employment relation?

This paper reports an empirical examination of an emerging perspective on the employment relation. This perspective suggests that although firms can no longer offer employees job *security*, they can offer greater assurances of *mobility* on the labor market, through more attention to general (as opposed to firm-specific) skill development and training (Waterman, Waterman and Collard, 1994; Bartlett and Ghoshal, 1995). By providing employees general skill development, firms increase employee prospects of finding future employment, thus potentially reducing employee anxieties over diminished job security, decreasing the likelihood of long-term unemployment, and, most importantly, securing valuable employee loyalty and commitment.

Even a momentary inspection of this perspective, however, suggests an apparent problem: Firms are likely to regard this as a risky and potentially costly proposition. Resources spent on improving the mobility of the employee will be resources lost if that employee leaves, or is poached by another firm. In cases of externalized labor, the firm would even have greater fears of losing their investments. This presents us with the familiar “problem of the commons”, as *The Economist* reminds us (April, 1996):

“Why should firms pay to equip employees with improved skills when those workers can be poached at a moment’s notice by competitors?”

This market failure dilemma of the contemporary employment relation forms the basis for this paper. In particular, our focal research question is: *Given the importance to society of creating a more mobile and flexible workforce, what would induce firms to invest in the general skill development of their employees?* What argument and theory could support such firm behavior when it is riddled with such risk and potential cost to the firm? In this paper we argue that the potential positive effects on *employee commitment levels* are a valuable outcome of providing general skill development and other transferable resources to employees. Because employee commitment, and

its consequences, are at a premium in dynamic contexts, actions to enhance employee commitment levels through more attention to employee training and skill development may be worth the apparent risks, *particularly if increases to employee commitment are significantly above and beyond what firms might expect from other sources of commitment*. To this end, we test the impact of different forms of firm investments (firm-specific and generalized) on employee commitment levels. We note that the risks of employee departure will always remain. However, the fruits of employee commitment (extra-role behavior and perhaps even a greater propensity to stay) may prove worthwhile.

Below, we test this thesis using dyadic data on employment relationships from the insurance industry, where we examine the employment relation between insurers and their agents. First, we develop the nature of the debate surrounding the contemporary employment relation and highlight attempts to formulate a new psychological contract based on employee mobility. We then formulate a model of employee commitment and test the consequences of general—in comparison to firm-specific—firm investments. We also examine some of the performance consequences of enhanced employee commitment. We conclude with a discussion of our findings.

BACKGROUND

The dilemma of the contemporary employment relation involves three converging phenomena: (1) the changing face of competitive dynamics, (2) the impacts on the traditional employment relation, and (3) present day “market failure” in labor markets.

The Changing Face of Competitive Dynamics

The prevailing wisdom on the nature of competition in many industries is that these are “turbulent times,” “change is constant,” and “competition is fiercer than ever.” Rhetoric aside, the suggestion is that firms face competitive regimes that are, for the most part, less stable and more competitive than they were 30 or more years ago. Some economic indicators seem to support this claim. For example, average after-tax corporate profits have decreased markedly since the 1940s through to the 1980s, partly suggesting increased levels of competition (US data: Spiers, 1996). Globalization trends also lend some support to these claims. To the extent that greater foreign presence in domestic markets means greater competitive pressures, OECD countries, on average, have witnessed the doubling of import levels (as a % of GDP) over the last 30 years, from 10% in 1965 to 21% in 1995 (OECD, 1995), suggesting an escalation in competitive pressures.

For management, this has called for a greater emphasis on fast strategic decision-making (e.g., Bourgeois and Eisenhardt, 1987; Eisenhardt, 1989a; D'Aveni, 1994). D'Aveni (1994), for example, displays, across a range of competitive contexts, how shorter business and technology cycles and faster competitor responsiveness are forcing strategic decisions sooner onto the business firm. More importantly, the result of this trend is that *flexibility* is sought at a premium in most contemporary organizations. If a manager must change the direction and functioning of the organization more rapidly than before, the ability to quickly alter everything from cost structures, to business processes, to organizational culture will be highly valued and sought. Such speed and flexibility, it seems, is at the heart of current thinking on competitive advantage (Teece and Pisano, 1994). For our purposes, the issue now is how have these dynamics impacted the traditional employment relation? How have managers interpreted and operationalized this need for greater flexibility?

Disrupting the Traditional Employment Relation

First of all, we define the employment relation as fundamentally composed of “psychological contracts” (Rousseau, 1989; Rousseau, 1990). In general, contracts can be distinguished between *transactional contracts* (i.e., easily observable, economic contracts of fixed duration and scope, such as wage contracts) and *relational contracts* (i.e., less defined, subjective understandings on the nature of a relationship and ensuing obligations) (Rousseau and Parks, 1993; Sheppard and Tuchinsky, 1996). Our use of the term psychological contracts focuses more on the latter contractual type, that is on the perceived (rather than formally explicated) obligations between employers and employees. This more perceptual and subjective lens is seemingly more germane to our central concern with the more interpretive obligations or “promises” in the contemporary employment relation, such as “promises” of job security and mobility (on the part of the employer) and loyalty (on the part of the employee)—conditions which are seldom spelt out in the formal employment contract but nevertheless may exist as strongly held beliefs in the minds of employees and employers (i.e., managers) alike.

The traditional psychological contract is based on employment security (Waterman, Waterman and Collard, 1994): employees exchange commitment and loyalty (above and beyond that which their wage secures) under the belief that they will have a long-term job. The benefits to the organization include the multi-faceted displays of this surplus employee commitment, including extra individual effort at work, enhanced cooperation and teamwork, and a positive image to the extant labor market (which facilitates recruitment) (Pfeffer, 1994). The benefit to the employee is largely the avoidance of the painful repercussions of job loss, including threats to their

psychological and physical health and severe disruptions of social relations (Leana and Feldman, 1988). This contract is well embodied in the popular phrase “lifetime employment,” much used only a short time ago.

For the most part, demands for increased speed and flexibility have made the traditional psychological contract defunct. The disruption to this contract, in general, comes from the apparent inability of firms to *simultaneously* honor long-term employment security while also creating greater organizational flexibility under more competitive conditions. Simply put, firms no longer have long-term job security to offer. Two trends suggest as much. First, recent research on downsizing (Cameron, Freeman and Mishra, 1991; Cameron, Freeman and Mishra, 1993) reveals that there is a definite trend towards regular workforce reductions in the past decade. Cameron, Freeman, and Mishra reveal that not only have 85% of the Fortune 1000 firms downsized their white-collar workforce between 1987 and 1991, but that their sample of firms (automotive industry) are likely to normalize such practices, stating (1991:68) “the most successful organizations emphasized downsizing as a means to an end, but they also emphasized downsizing as the targeted end.” The message to employees is clear: long-term job security is a thing of the past. The business press strongly echoes this message. Cover stories with titles such as “Living with Layoffs” (Nocera, 1996) or “Economic Insecurity: Learning to Cope” (Economist, 1996), are widespread. We add that they are especially revealing during current periods of relative economic growth and prosperity, suggesting that perceived changes in the employment relation are not simply cyclical but structural.

Second, there has also been a definite trend toward the externalization of work, as Pfeffer and Baron have argued (1988:263):

“..perhaps the most visible and prominent trends in the structuring of work arrangements of late involve “taking the workers back out” of their organizations, that is diminishing the administrative, temporal, and/or locational attachments between employees and organizations.”

In other words, many forms of current employment practices involve employees that are peripheral, non-long-term members of the firm. Firms are much more likely these days to outsource a wide range of jobs, from janitorial services to their entire salesforce (as in the case of many insurance agents). The increasing number of professional service organizations, who often serve as sources of outsourced labor, are a complimentary indicator of this trend (Carroll, 1994). In these situations, the uncertainty of long-term employment with a firm is even more immediate and direct than under threats of downsizing: diminished attachments to the firm are, in effect, formally contracted. Clearly, under such arrangements the traditional psychological contract is also

extinguished. Keeping these “employees” motivated, loyal and committed, however, remains an enormous managerial concern (Pfeffer and Baron, 1988).

The demise of the traditional employment relation cuts in two ways. First, employees (whether “outsiders” or “insiders”) are no longer able to count on long-term job security. Instead, they are faced with more frequent entries into a competitive labor market. Moreover, these jobs may differ significantly in skill-bases from their current work, forcing them to consider their own “flexibility” in the labor market. Second, employers face a dilemma: the nature of the competitive context requires, perhaps more than ever, the benefits of employee commitment and loyalty. Yet, this same context makes employee commitment much less likely to exist. These circumstances have raised serious questions about the future of the employment relation. From the employee’s perspective, if employees can no longer count on employment security but must be prepared to change jobs, if not entire skill sets, several times over the course of a lifetime, what are the implications for their psychological contract with the firm? From the employer’s perspective, how do firms ensure that they are able to secure the commitment levels that they require without losing the flexibility they seek? In general, what is an alternative basis for the contemporary psychological contract?

Mobility and Market Failure

An emerging conception of the contemporary employment relation focuses on retaining employee commitment in exchange for enhancing employee mobility, often referred to as “employability” (e.g., Waterman, Waterman and Collard, 1994; Bartlett and Ghoshal, 1995; Ghoshal, Moran and Bartlett, 1996). Whereas the traditional contract obligated employee commitment based on the “promise” of long-term job security with the same firm, employability obligates the same employ commitment but on the basis of enhanced job mobility because of investments made by the firm in the employee. The essence behind the concept is that firms will invest in the development of general (transferable) skills of their employees, that is those skills that will help the employees become more mobile in the labor market, able to secure jobs relatively easily if they face layoffs from their employer (or, in the case of contracted labor, may have to frequently look for alternative host firms). Ghoshal, Moran, and Bartlett (1996) point out that a relatively small, but influential, group of advocates for this position is emerging, including Intel’s CEO Andrew Grove, GE’s CEO Jack Welch, and Andersen Consulting Company. Welch’s comments are particularly instructive: “The new psychological contract, if there is such a thing, is that jobs at GE are the best in the world for people who are willing to compete. We have the best

training and development resources and an environment committed to providing opportunities for personal and professional growth” (Tichy and Charan, 1989:120).

To be sure, this is also a form of “job security”—securing the employee “a” job, although not “the” job they have had with the existing firm. However, because the relationship is no longer dyadic (involving just the firm and its employees) but involves third parties (other firms as potential employers and competing employees) the dynamics of this contract are more complex. First, the arrangement is perhaps most attractive for employees. Given uncertain employment conditions, who would not rather work for a firm that invests in his/her general skills, and thereby increase their personal value on the labor market, than for a firm that does not? Simply put, the employee is likely to have more options in the labor market, a desirable state given the current business climate.

From the point of view of the firm, however, clearly there are serious risks under the terms of this contract. Employees whose stock of skills increases in value on the labor market may be more likely to be “poached” by other firms, or leave on their own initiative. Firms are therefore in danger of losing their investment in employees (and all the potential benefits of those investments), as those investments offer the employees greater mobility. This presents the familiar market-failure argument: actions that increase social welfare but at a potential cost to the firm will be avoided by the marketplace, as *The Economist* stresses (Economist, 1996:23):

There is no mystery about it. Spending money on training can make sense, despite poaching, if one of two things is true. Either the firm must be able to pay a comparatively low wage during training (recovering some of the cost from the worker), or else the training must be *firm-specific* (and therefore of little interest to a would-be poacher). [emphases added]

It should be pointed out that investments into general employee skills in particular are likely to be eschewed. Indeed, under *The Economist's* recommendations, training and development would only be highly firm-specific, ensuring that the benefits of that training accrue primarily to the firm and are not (at least as an objective) transferable. Although firm-specific investments are likely to breed some employee commitment (Williamson, 1985), it should be apparent that firm-specific training would be of less interest to employees *relative* to general firm investments, since it would do less for their mobility on an increasingly competitive labor market. It should be of less interest to society as well, since the labor market is left with a less adequately trained workforce than a turbulent business environment may require. The dilemma over employee loyalty and commitment levels therefore remains at an impasse. On the one hand, because of the apparent failure of the market to provide general skill development, hopes of regaining and perhaps enhancing employee loyalty is diminished, as well as hopes of alleviating problems of long-term

unemployment. On the other hand, employers are loathe to commit to such investments where there is such uncertainty over future benefits.

This brings us to the focal empirical question this paper poses: *given the importance to both society and individuals of creating a more mobile workforce under turbulent business conditions, what would induce firms to invest in more general, as opposed to highly specific, skill development of their employees?* Can the firm have some assurance that employees will respond with greater loyalty and commitment, as opposed to taking flight, where such investments are made?

A HYPOTHESIZED MODEL OF THE ROLE OF FIRM INVESTMENTS ON EMPLOYEE COMMITMENT

Below we will propose and empirically test a model that addresses our focal research question. In general, we maintain that if employee commitment levels may be significantly enhanced by generalized firm investments (i.e., over and above other sources of commitment, such as firm-specific ones) they may be a worthwhile investment for firms to consider. Below, we begin by arguing for the importance of regaining and enhancing employee commitment under current business conditions. We then develop our model through a series of hypotheses before testing our model and presenting our results.

Re-emphasizing the Role of Commitment

An important part of our response to the dilemma of the contemporary employment relation is a re-emphasis of the role of commitment in the organization. As Simon noted (Simon, 1991), to be competitive, organizations require more from their employees than just the basic yield of the formal employment contract, the “minimal” exchange of labor for wages. Instead, they require their employees to work with “initiative and enthusiasm,” taking personal responsibility in maximizing firm outcomes. This prompts Simon to ask, “Why do employees often work *hard*?...Why should employees attempt to *maximize* the profits of their firms when making the decisions that are delegated to them?” (italics added) (Simon, 1991 p34). A part of the answer, and the most important part according to Simon, is the loyalty and commitment employees feel towards their firms. Employees can so closely identify with the firm, including its stated goals and values, that they naturally work towards maximizing firm outcomes, genuinely

making their best effort to seek the best interests of the firm.¹ In the past, high levels of commitment may have been fueled by the reciprocal loyalty displayed by the firm through the psychological contract of employment security. Replenishing employee commitment at this time seems more important than ever. Firms place a premium on so-called extra-role behavior and attitudes (Kim and Mauborgne, 1996). This is largely because such behaviors and attitudes are strongly associated with innovation and entrepreneurship in the firm, which are likely to be in greater demand in dynamic environments. Ironically, it may be that at a time when employee commitment is becoming more important it is also facing greater erosion.

We hold that because of the premium for committed action on the part of employees, and because of the apparent erosion of employee commitment, psychological contracts based on employability may be worthwhile to firms. Specifically, *investments in the general skills and resources of employees by firms may lead to greater commitment from employees to the firm above and beyond that expected from idiosyncratic investments by the firms or other potential sources of commitment.* The risks to firms of an employability contract have been outlined above. However the advantages—extra-role behavior, cooperation, and more positive attitudes while the employee is with the firm along with a potentially lower likelihood of voluntary turnover—may be attractive, if not critical for dynamic environments. Below, we present a series of hypotheses based on this general argument (see figure 1). Note that our principal objective is not to model commitment *per se* but to model the effect of firm investments on commitment and to assess the functioning and performance of the employment relationship, broadly construed. Finally, our setting is the insurance industry, where we studied the employment relationship between insurance firms (i.e., their regional offices) and their agents (we will therefore refer to employees and agents interchangeably—the nature of this “externalized” employment relationship will be elaborated below).

Figure 1 about here

Conceptualizing Commitment

We conceive of commitment, first of all, as a relational construct: people offer commitment to something or someone. In general, commitment is the affinity one party feels

¹ Simon also argues that economic incentives are important, but “organizations would be far less effective systems than they actually are if such rewards were the only means, or even the principal means, of motivation available.”(1991:34)

towards another party or object. Specifically, we will follow Anderson and Weitz's conception of commitment (Anderson and Weitz, 1992 p. 19):

“commitment goes beyond a simple, positive evaluation of the other party based on a consideration of the current costs and benefits associated with the relationship... [it] entails a desire to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship.”

In this conception of commitment, we note particularly the normative and somewhat the affective aspects of commitment (Allen and Meyer, 1990), that is those based on an emotional attachment and sense of loyalty and responsibility to the organization, rather than the more calculative aspect (those based on economic necessity, or what Allen and Meyer call continuance commitment). We focus on the former two components of commitment because they are particularly important to such potential benefits of commitment as good citizenship behavior, cooperation, teamwork, and so on (see Morrison, 1994).

The Role of Firm-Specific Investments

An important source of commitment is the level of investment that is specific, or idiosyncratic, to the relationship (Williamson, 1985). The ability of firms to appropriate rents depends to a large degree on their possession of unique inputs and capabilities (Conner, 1991), that is, resources that are, to some extent, scarce and not easily copied by other firms. In order to ensure rent appropriation, firms will have a tendency to highly tailor and specialize their resources (Amit and Schoemaker, 1993), including their human resources, resulting in the close-coupling of the agents to the firm. Moreover, this can occur in two directions: the firm can make idiosyncratic investments in their agents and the agents can make idiosyncratic investments in their firm. Both conditions have consequences for agent commitment levels.

Idiosyncratic investments by agents. Idiosyncratic investments involve the deployment of resources in a relation-specific manner (Anderson and Weitz, 1992). Such investments may serve to promote unity and mutuality in the relationship. As Williamson has argued, such binding creates “credible commitments” in the relationship, since it is in the self-interest of the (self-)fettered party to preserve the relationship once the fortunes are closely tied together (Williamson, 1985). Parties who have so invested will be more likely to maintain and protect the relationship since they will see their fate closely tied with the fate of the other party. Therefore, we propose the following:

H1: The level of idiosyncratic investments made by agents in the employment relationship will increase the commitment of the agents to the firm.

Idiosyncratic investments by the firm. The firm may also deploy resources in a highly relation-specific manner. Although the effect may be to further “bind” the agent to the firm and vice versa, thus decreasing mobility, it is likely that the agents will rather see these as signals of commitment by the firm to the relationship. It is likely that agents will therefore reciprocate with increased commitment to the firm. Comparing this hypothesis to the previous one, we envisage the driving motor to be reciprocity in this case as opposed to just dependence. Therefore:

H2: The level of idiosyncratic investments by the firm in the employment relationship will increase the commitment of the agents to the firm.

The Role of General Investments

Despite the apparent benefits of idiosyncratic investments, we have argued that there are nevertheless inherent weaknesses in such investments for the purposes of employee commitment within highly turbulent contexts and thus other sources of commitment may need to be considered. Specifically, as firms are no longer able to abide by the “employment security” contract, agent commitment levels (based solely on the above firm-specific investments) may erode as they suspect their future employment prospects no better off from such idiosyncratic investments. This is not to say that idiosyncratic investments would cause decreases in commitment, that is exhibit a negative relationship—we suspect some perceived investment is better than no investment from the point of view of employees—only that such investments, based on the changing interests of agents, may no longer be enough to generate the higher levels of commitment firms may desire. On the other hand, investing in the general skills and resources of agents, and therefore increasing their market value and long-term “security” as insurance agents, is likely to be highly desired by agents. General investments in the employment relation would be those that the agent can clearly deploy in alternative employment relations. This should have great instrumental value to the agent. Moreover, because it is a more altruistic act than firm-specific investments made by the firm—displaying a greater amount of concern for the agent as an individual rather than simply as an agent of the firm—it should invoke in agents a strong need for reciprocity manifested in greater commitment to the firm. Therefore:

H3: The level of general investments made by firms in the employment relation will increase the commitment of the agents to the firm above and beyond those levels attributable to firm-specific investments.

Baseline Model

Although the focus of this paper is not on modeling commitment per se, nevertheless we need to specify a baseline model that considers alternative sources of commitment and relevant controls given the above claims. Below we consider one potentially important source of employee commitment, the social context of exchange, developing several competing factors for employee commitment.

The Role of the Social Context of Exchange

A second general source of enhanced agent commitment is based on the social nature of the relationship between parties. That is, this has less to do with investments in the *operational or instrumental* aspects of the relationship (i.e., investment in human skill-sets and other assets that have more instrumental implications, as was the focus above), than the *social* aspects of the employment relationship. Here we are generally referring to the “context” of the relationship (e.g., Barnard, 1938; Bower, 1970; Schein, 1985), or more specifically to the level of common sentiment or mutual understanding developed over the course of the relationship (Scott, 1994). We present this category to emphasize that the contemporary employment relation will be guided by more than just the calculation of the instrumentality or cost of the relationship (e.g., Hirsch, 1987), but also by the intrinsic and normative features of the relationship. In general, the extent to which there are institutions of common understanding and shared meaning between parties, there should also be affinity and therefore greater commitment to the relationship. Two constructs in particular can serve to capture the nature of the social context in the employment relationship, albeit in slightly different ways; perceptions of employer fairness and the extent of bilateral communications.

Employer fairness. One important contextual feature of any relationship is the extent to which parties perceive equity or fairness in the relationship (Ghoshal and Bartlett, 1994). Following Kim and Mauborgne (1995; 1996), the judgments that parties to a relationship make on the fairness of the ongoing exchanges of the relationship will “influence their perceived obligation to comply with the resulting decisions of that process” (1995:45). Note that “obligation to comply” takes a normative meaning here, as opposed to coercive. In other words, agent perceptions that the employer can be trusted to treat them fairly should create strong, “natural” feelings of attraction for the employer. The employer is, by definition, thought to be treating the agent with justice, which is likely to increase the positive attitudes the agent holds for the firm. This should also invoke a strong sense of loyalty on the part of the agent for the firm. Therefore:

H4: The level of perceived firm fairness by agents will increase the commitment of agents to the firm.

Bilateral communication. For shared meanings and common sentiments to develop, some level of bilateral (i.e., freely given, open, and frequent) communication is seemingly important. In short, where communication levels between the agents and the firm are high, more trust and understanding is likely to develop. Specifically, high communication levels should also breed greater familiarity and, therefore, attraction (Zajonc, 1980). In particular, two-way (bilateral) communication is especially effective in building commitment because it signals mutual respect and serves as a forum for resolving disputes and finding points of commonality (Mohr and Nevin, 1990).

H5: The level of bilateral communication perceived by agents will increase the commitment of agents to the firm.

Controls

Agent tenure. Commitment may be a natural artifact of people's overall experience with one another. In particular, the length of time agents have been with the firm may also breed more familiarity, mutual understanding and agent identification with the firm (Edwards, 1979)—even though it can also lead to conflict and disdain. Nevertheless, we control for agent tenure since it could plausibly be associated with greater levels of agent commitment.

Agent independence: small numbers problems. As developed in our notions of firm-specific investments, commitment to another person or organization may be related to the level of dependence on the relationship. However, there are several different forms in which that dependence can be manifested. First, highly-specific investments bind parties to one another, meaning they regard their fortunes as *inextricably linked*, that is highly interdependent, generating a strong need to promote the relationship in order to ensure self-preservation, and thus likely to generate commitment (we can call this “common fortune” dependence, which was emphasized in hypotheses 1 and 2). However, firm-specific investments are also liable to leave agents with fewer choices of outside relations, that is the agent would be said to depend upon the firm to the extent that they cannot find a replacement source for this relationship (e.g., the availability of alternative insurance firms to represent—we can call this “small numbers” dependence) (Emerson, 1962). The rationale for greater commitment in this case, however, may have less to do with perceiving identities and futures as unified (an “internal,” relationship focus) than on calculating the extent of the resulting options (an “external,” opportunistic focus). Firm-specific investments may be the “cause” of both sources of commitment although the perceptual drivers for commitment may

differ. Therefore, we regard “common fortune” and “small numbers” dependence as related but distinct constructs, both of which may be channeled through firm-specific investments and impact agent commitment. In order to ensure these two constructs are distinguished in our measures, we will specifically control for the extent of small-numbers based dependence of the agent (i.e., the number of alternative firms that are available for representation).

METHODS

Data Sources

The North American insurance industry is the setting used to put these propositions to a test. The relationship studied is between insurance companies (insurers or underwriters) and their salespeople. These salespeople constitute independent insurance agencies, which are paid commissions by the insurer for each policy they sell. In many ways, these agencies are similar to employee sales forces paid on commission (Anderson and Oliver, 1987). But there is an important difference: agencies operate out of their own premises, representing more than one insurer. Hence, they are more diversified than an employee commissioned salesforce and more divorced from the informal influence mechanisms employers have over employees working on their premises. More importantly, they are a good representation of the growing trend in “externalized labor” (Pfeffer and Baron, 1988).

We regard this context as a conservative, acid test of the proposition that generalized investments generate commitment. This is because independent agents are already quite mobile, more so than the traditional “insider” employment relation. Generalized investments given to “insider” employees are likely to offer relatively greater immediate security from job loss, perhaps the most basic risk inherent in any employment relation, and thus greater chances of attracting commitment. Agents also do not face downsizing as traditional employees might. Moreover, studies of the insurance industry suggest that commitment is generally a scarce commodity all around (Regan, 1996). Indeed, our experience in this industry suggests that many branch managers of insurers tend to believe that making general investments in independent agents is folly: they expect the agents to pocket the investments and reciprocate nothing whatsoever. Taken together, these differences suggest insurance sales agencies should, generally, *undervalue* generalized investments *relative to* more traditional (“insider”) employees from the point of view of commitment.

Nevertheless, commitment is not inconsequential to this industry and employment relation per se—in fact, recent trends suggest quite the opposite. A trend in the last fifteen years in

the US insurance industry has been a reduction in the number of agents, with the surviving agencies growing larger (Regan, 1996). This is coupled with a tendency for both agents and insurers to cut back the number of entities with which they do business (O'Callaghan, Kaufmann and Konsynski, 1992). This is largely attributed to many agents actively seeking to form a committed relationship with one or a few insurers in order to differentiate their agencies and improve their operating efficiency. By the same token, many insurers are interested in committed relationships with agents to improve the quality and vigor of their field representation, as well as to dissuade agents from knowingly selling their policies to poor insurance risks (adverse selection) or misrepresenting the client's claims to the insurer (moral hazard). Hence, commitment is a growing topic of interest in the industry, and considerable experimentation in this domain is occurring among insurers and agents.

Two large insurance underwriters, one with emphasis on property/casualty products and the other focused more on life insurance products, participated in data collection from *both sides* of the insurer/agent dyad. For a random cross section of its independent agents, each firm nominated two respondents, one within the insurer and one within the agency, on the basis of being the most knowledgeable informant about the firm's relationship (Campbell, 1955). Usually, the agency nominee was the owner, as these are small operations in which the owner wears all hats, including salesperson and liaison with the insurer. The insurer informant was usually the manager of the branch office in the agent's market. A survey, pretested for simplicity, clarity, and ease of response, was sent to the nominated informant. The survey named the firm it concerned (the insurer, the agent) and asked for a report about the relationship with that firm. Cover letters from the insurer and from the researchers, on academic letterhead, asked for participation and promised confidentiality. Surveys were returned directly to the researchers, who used a code on the forms to match up insurer/agent reports (the code was explained in the cover letter). An initial request was followed up a month later by a duplicate survey. Firm A provided 452 pairs: mailings generated response rates of 54% among agents and 71% among insurer personnel. Firm B supplied 151 pairs from internal lists which were subsequently deemed to be out-of-date (many of the agents on them had not written a policy for Firm B in years). Firm B audited its records and concluded that approximately 1/3 of the 151 pairs were no longer current. After this correction, Firm B's response rate approximates 53% for agents and 82% for insurer employees. Ultimately, after deleting a small number of observations with missing data, there are 297 agents and 368 insurers available for measure development, from which 240 complete pairs emerge for hypothesis testing.

Measures

Most constructs are measured by multi-item scales (7-point, Likert type). The complete battery of scales appears as Appendix 1. Each scale was composed using Nunnally's (1978) procedure of 1) specifying the construct domain, 2) generating items to tap multiple facets of the domain, 3) factor analyzing the pre-specified items to verify that the first factor accounts for substantial variance and that all items load highly (at least .4), with the theoretically appropriate sign. Having verified unidimensionality in this fashion, reliability is then assessed via Cronbach's alpha. A brief description of each scale follows. Some scales are reported by the agent, some by the insurer. The choice of informant is made based upon who is placed to have the best information. Thus, each party reports on its own behavior, attitudes, and intentions or on how it perceives the relationship.

Commitment of the agent to the insurer is measured via eight items put to the agent. These items tap the agent's loyalty to the insurer, preference for staying with the insurer, and sacrifice to maintain the relationship (both behavior and willingness to sacrifice). This scale, also used in Ross, Anderson, and Weitz (1996), reflects desire, belief, and action towards the solidarity of the relationship with the (named) insurer. Comparing this scale to Allen and Meyer's commitment scale (1990), the focus of the questions is mostly on normative commitment (based on loyalty), partly on affective commitment (based on emotional attachment to the insurer, for example evident in a willingness to defend the insurer, thus seeing their problems as one's own), but not on continuance commitment (based on dependence and necessity of staying together). In general, we regard the former two components of commitment as being more relational in nature and particularly critical to extra-role behaviors in the firm, as also used by Morrison (1994). Factor analysis indicated only one factor was present, with a high coefficient alpha (.91). Although we cannot distinguish between normative and affective commitment in our scales, our theory and model seemingly does not require this distinction: both forms of commitment should lead to the same desirable results. Indeed, in a recent study regarding organizational citizenship behavior, Morrison (1994) predicted and found similar consequences on "good citizenship behavior" (i.e., more and various forms of helping and serving in the firm) from *both* normative and affective commitment.

The agent reports its level of *idiosyncratic investments in the insurer*. These investments have the feature of being tailored to the insurer, hence difficult to redeploy to another insurer. These include dedicated personnel, efforts to build the insurer's business, investment in acquiring knowledge that is particular to the insurer, aligning the agent and insurer in presentations to policyholders and prospects, and adopting forms and procedures similar to the insurer's. This

latter is an important issue in insurance, as forms and procedures are the "production process" for creating an insurance "product." Several summary statements (e.g., "If I switched to a competitive company, I would lose a lot of the investment I've made in this company") underscore the idiosyncratic nature of these varied investments. The agent reports here on its own behavior, which may not be completely observable to the insurer.

The insurer reports its level of *idiosyncratic investment in the agent*. There are somewhat fewer plausible ways for insurers to invest in agents than for agents to invest in insurers, so there are fewer items in this scale. Such investments take the form of dedicated personnel, acquiring knowledge particular to the agent's operations, aligning the underwriter with the agent in presenting the underwriter to policyholders, and building up the agent's business. These behaviors may not be completely observable to the agent.

The agent reports the level of *general investments the insurer has made in the agency* in a nine-item scale tapping several facets of investment. The underlying factor in these investments is that the agent can use them in the service of another insurer, generally both across space and time (i.e., other insurers and situations now and in the future). The items run a gamut of redeployable investments: advice and assistance about managing the agent's business, advice on how to grow a business, and the possibility of subsidies to help the agent acquire or upgrade computing capabilities ("automation").²

These latter computing investments are an important issue in the industry. Data were collected in the late 1980's, when many agencies were primitive in their computer usage (a situation which has improved but is still an ongoing concern in the industry). Computerization is particularly valuable in insurance given the importance of information in the production of an insurance policy and the ability of information technology to improve the storage, processing, and application of that information. Harris and Katz (1991) demonstrate the substantial impact of computer information technology expenditures on the performance of the insurers themselves. Zaheer and Venkatraman (1994) argue that agents which adopt agent/insurer electronic data interchange (EDI) perform more effectively on behalf of the insurer. O'Callaghan, Kaufmann, and Konsynski (1992) show that agents which engage in EDI with an insurer gradually increase their sales of the insurer's products. In short, automation is a critical issue in insurance. When insurers

² As free-ridable investments are a behavior of the insurer, it would be reasonable to ask the insurer to report the investments. By asking agents to report what investments they received, however, we disentangle what might have been the insurer's intent from its behavior. Further, the agent is in an excellent position to distinguish general from idiosyncratic investments.

offer to help agents computerize their offices, this general business assistance is an important benefit.³

Turning to social context, *bilateral communication in the relationship* is reported by the agent. Higher scores on the items in this scale reflect greater attempts by agent and insurer to keep each other informed, greater involvement in each other's planning, giving advice, and giving information freely. (While the insurer's estimate of bilateral communication is also relevant, one might expect the agent's perception to be the most relevant to its own attitudes and behaviors, such as commitment to the insurer.) The agent's assessment of the *insurer's trustworthiness* is a three-item scale reflecting the agent's trust that the insurer can be counted upon to treat it fairly and its belief that the insurer has earned a reputation for fair dealing with agents.

Finally, *agent tenure* is measured as the age in years of the relationship between this insurer and agency. *Agent independence* (small numbers related) is measured by asking the agent how many other insurers the agent represents. Although this is not the universe of options available to the agent, it does reflect the more immediate options the agent has for doing business and therefore the extent to which the agency is independent from the firm from a small numbers standpoint.

Commitment and Performance

Although our primary focus in this paper is on the impacts of various investments on commitment levels, we are naturally concerned about what those commitment levels may actually mean for agent performance. After all, the reason most managers would make any investment in the firm is arguably to improve prospects of performance. Unfortunately, suitable performance metrics in organizational research are often difficult to pinpoint and agree upon (Lewin and Minton, 1986; Meyer and Gupta, 1994), and we know of no ideal performance metric for a construct as general as employee commitment, largely because it can have an impact on many different behaviors (efficiency, making targets, innovativeness, etc.). Nevertheless, given our claims about the importance to the firm of enhancing employee commitment, we have made an effort to try and study some of the impacts of firm investments and commitment on performance.

³ While most automation assistance is multi-purpose, some insurers' computerization efforts have a proprietary component, such as an insurer-specific EDI system. This element is tapped by an item about forms and procedures in the idiosyncratic investment scale. The automation referred to in the free-ridable investment scale is predominantly general (e.g. acquiring spreadsheet software, or even acquiring a computer). The automation items load highly in the factor analysis of general investments and correlate more highly with general than with transaction-specific investments.

Specifically, we will examine two general indicators of agent performance: (a) insurer's level of *satisfaction* with the relationship (insurer reported) and (b) insurer's *expected benefits* from the relationship (insurer reported). In both cases, we expect agent commitment to have a positive impact on these indicators of agent performance—more committed employees should produce better work and as a consequence more satisfied insurers.

Three controls for agent performance are included. One covariate is the sheer *revenue volume* the agent generates for the insurer, a figure readily available to the company informant. The second covariate is the *share of the agent's total business* derived from the insurer in question. This is measured by asking the insurer to estimate the agent's total volume and taking the ratio of the agent's insurer-specific volume to agent total revenue.⁴ We use both these measures in order to control for size or volume effects on the principal's satisfaction levels with an agent. Finally, we also control for any *product synergy* effects between the agent's other product lines that she/he may sell and the insurer's products. This is reported by the insurer, who is asked to agree/disagree whether the agent's other product lines help the insurer generate sales—such synergies would obviously be an alternative source of insurer satisfaction and expectations of benefits.

RESULTS

Agent Commitment

Table 1 shows the correlation matrix of the scales. Notably, there is some level of intercorrelation (on the order of .4 to .5) among the three investment scales (general, plus idiosyncratic by agent and by insurer). This implies that investments often occur across types and across sides of the dyad, which would imply efforts by both sides to build the relationship. Further, investments, particularly general investments, are correlated with bilateral communication (ranging from .32 to .57). It would appear unlikely for insurers to bestow investments on agents without benefit of interaction. Indeed, the nature of the investments (e.g., advice) demands communication to impart the investment. These correlations are not high enough to pose a serious collinearity problem (Mason and Perreault, 1991), nor to threaten the discriminant validity of the scales. However, they do suggest that making human investments between insurers and agents

⁴ The agent also provided, in confidence, the rank order of the insurer in its volume. The insurer's estimate of its share of the agent's business declines with the agent's report of the insurer's rank in its volume. This suggests the insurer's estimate of its share of the agency's volume possesses validity.

requires communication and that firms, when they choose to invest, often do so in several ways. These are unsurprising observations. Finally, tests to distinguish the various hypotheses between the two firms in our sample proved negative, that is the results were consistent between Firm A and Firm B.

Tables 1 & 2 about here

Table 2 shows the results of ordinary least squares regression models of how committed an agent is to an insurer. Models 1-3 show sequential entry of the variables of interest, pointing out the additional impact of each set of variables. Hypotheses are generally supported, albeit at various levels of significance and with varying impact on commitment.

Firm-specific investments. Idiosyncratic investments do appear to play their hypothesized role of shackles to the relationship. First, hypothesis 1 is modestly supported. The more the agent invests in the insurer in ways which are difficult to recoup and highly specific to the insurer, the more the agent is committed to the insurer ($\beta = .088, p < .1$). It would seem, therefore, that where dependence on the insurer is built-up, greater agent commitment will result. We also point out that this effect remains even while controlling for small numbers dependence of the agent on the insurer, that is the extent to which the agent had immediate other firms she/he could turn to should the relationship with the insurer terminate. (We note that firm-specific investments by the agent and agent independence were not correlated to any great extent (-.22) lending some support to the separation of these constructs.) This would then suggest that the agents' firm-specific investments reflect a desire to maintain and protect the relationship because of a perception of common fate and interests with the firm, and not just a lack of alternative options. It is important to point out, of course, that small numbers dependence is nonetheless significant to generating agent commitment.

Hypothesis 2 showed better support ($\beta = .104, p < .05$). The insurer's idiosyncratic investments into the agent also raise the agent's commitment. The more the insurer invests in the relationship in highly specific ways, binding themselves to the agent, the greater the levels of commitment on the part of the agent. This supports the notion that investments into the agent are reciprocated with greater loyalty for the firm.

Comparing this to the previous result, commitment seems somewhat more a consequence of the norm of reciprocity than simply an artifact of dependence. The norm of reciprocity is also suggested in Table 1, where agent and company investments were often found to occur together (correlation of .45). This suggests that employees are more likely to convert their firm-specific

investments into commitment where the firm is reciprocating in kind (see also Anderson and Weitz, 1992).

Generalized Investments. Hypothesis 3, our central hypothesis, received healthy support. Transaction-cost analysis stresses that idiosyncratic investments are not transferable, binding parties together, while generalized investments are transferable. Do agents then take the investment but withhold the commitment? The results indicate that they do not. Agents do reward insurers which make generalized investments by displaying greater commitment to the insurer ($\beta = .153, p < .01$). Moreover, the beta coefficient is larger than for the other two investment types and adds significance ($p < .01$ level) to the prediction of commitment, as displayed in the full model. In other words, the rewards of generalized investments are levels of agent commitment that are a significant improvement on those levels obtainable by the other hypothesized sources.

Social Context. Both hypotheses 4 and 5 were strongly supported. The social context of the relationship plays a powerful role in the development of commitment. Agents which believe the insurer to be fair and trustworthy are considerably more dedicated ($\beta = .258, p < .001$), as are agents which have open and bilateral communications with the insurer ($\beta = .395, p < .001$). The size of the beta relative to the other sources of commitment is particularly noteworthy. A unit of fairness or bilateral exchange pays-off handsomely for the insurer, contributing several times the potential contribution of either idiosyncratic or generalized investments. Note, however, that the age of the relationship plays no apparent role—what seems to matter for commitment is the *intensity* of the experience, rather than mere duration.

Finally, the agent's independence from the insurer corresponds modestly to commitment levels: the more insurers the agent represents, the less its dedication to the focal insurer ($\beta = -.062, p < .10$).

Agent Performance

Table 3 shows the performance scales we used as well as the correlation matrices. Table 4 reports the results of the regression models estimating agent performance. In both cases, agent commitment is a strong predictor of performance. More committed agents are likely to breed more satisfied insurers ($\beta = .26, p < .001$) and insurers with greater expectations of future benefits from the relationship ($\beta = .23, p < .001$). In both cases, the impact of commitment is comparable, if not greater than, the impacts made by controlling forces, such as product synergy. This is particularly noteworthy given that reported commitment comes from the agent, while reported performance measures (along with the other controls) comes from the insurer. Hence, even though

the insurer may be unaware of the agent's commitment, it is more satisfied with and expects greater benefits from a committed agent.

Tables 3 & 4 about here

DISCUSSION

We return to the question posed by *The Economist*: "Why should firms pay to equip employees with improved skills when those workers can be poached at a moment's notice by competitors?" Our response is based on the impacts on commitment and agent performance. We also discuss the limitations to this study and future research directions.

Employee Commitment. Our results indicate that commitment levels can be appreciably enhanced through generalized investments. Although the gains to commitment from this source of investment were, in an absolute sense, modest, they are noteworthy in comparison to firm-specific investments—a unit increase in generalized investments will have approximately one-and-a-half times more impact on commitment than a comparable increase in idiosyncratic investments by the firm—the form of investment *The Economist* recommends. This is particularly noteworthy given the deterioration of employee loyalty today (Hirsch, 1987). If, as Simon (1991) suggests, loyalty and commitment are one of the most important sources of firm effectiveness, then attempts (perhaps even seemingly risky ones) to increase commitment may be worthwhile (an assumption we shall shortly examine).

Our results also remind us of the importance of context, not just "contracts." The influence of our two contextual measures—perceived fairness of the employer and the extent of bilateral communications—played by far the largest role on agent commitment. This should not perhaps surprise us. Many voices have arisen in the organizations and strategy literature to point firmly to the importance of context (e.g., Barnard, 1938; Bower, 1970; Schein, 1985) and some to even decry the importance placed on contracts, or market-based conceptions of organizations (e.g., Perrow, 1972; Conner and Prahalad, 1996; Ghoshal and Moran, 1996). Our analyses suggest the emphasis on context is not misplaced,⁵ although contracts cannot be ignored in our results.

⁵ We have also conducted some preliminary analyses on the interaction effects between investments and context. In general, there seem to exist significant interactions between investments (both idiosyncratic and generalized) and contextual variables. For example, investments made where there is greater perception of fairness and communication tend to enhance commitment levels. These analyses are ongoing.

Agent performance. Our results also indicate that enhanced commitment in this sample is not without its rewards for the firm. Both insurer satisfaction with the agent and expectations of benefits from the relationship are strongly enhanced by a more committed agent, a relatively large portion of which is generated by generalized investments (compared to idiosyncratic investments). This simply adds some confirmation of what others have suggested or found (e.g., Simon, 1991; Morrison, 1994)—committed and loyal employees are a valuable firm asset.

Limitations and future research. One important question to consider is whether generalized, as opposed to idiosyncratic, investments are “really worth” their benefit. First, although they provide comparably more commitment, it could be that they also stand a greater chance of being lost since, by their nature, they make employees more mobile than idiosyncratic investments. Employee ambition may be stirred by such investments and opportunities to leave taken. This remains a risk to the firm. On the other hand, the enhanced commitment they generate could plausibly be manifest in a lower likelihood to leave the firm (i.e., not just to do better work). This remains an important empirical question to examine.

Second, the savvy manager will point out that the marginal cost of generalized versus idiosyncratic investments should be examined before any verdict is given on such investments. That is, even though generalized investments create more commitment, they may be more expensive for the firm to generate versus idiosyncratic investments, potentially wiping-out the benefits. This is also an empirical question beyond the scope of the current study. We suggest, however, that the answer may be highly context specific. Some settings are likely to be more highly specialized than others, in which case the gap between what is a firm-specific skill and what is more generally marketable would be large. In this case, it is more likely that providing general skill development may require training and routines that are outside of the firm’s immediate capability, thus incurring greater cost.

Finally, although we argue that insurers and their independent agents in North America offer an acid test of our model, it is but one setting. The generalizability of these results outside this setting is unknown and requires exploration.

CONCLUSION

In recent times it has become clear that the traditional employment contract is defunct: firms can no longer offer job security. Yet, they remain dependent, perhaps more than ever, on committed employees. This paper has examined an alternative, emerging psychological contract—the exchange of firm investments that offer employees greater mobility for their commitment and

loyalty. We offered some preliminary tests of this contract, notably on the impacts to employee commitment that such investments (versus other sources of commitment) may bring. We also tested for the impacts of commitment on agent performance. In general, we found that this alternative contract has merits, based on its impact on commitment and commensurate impacts on performance. We also note that under present circumstances—where employees expect to change jobs several times over the course of a career—they may be naturally inclined to reduce their loyalty to any single firm. This contract may therefore be particularly valuable to them and, in turn, the source of valuable (because relatively more scarce) commitment for the firm. We also examined the limitations of our study and pointed to unanswered questions.

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FIGURE 1:
Enhanced Mobility and its Consequences on Commitment

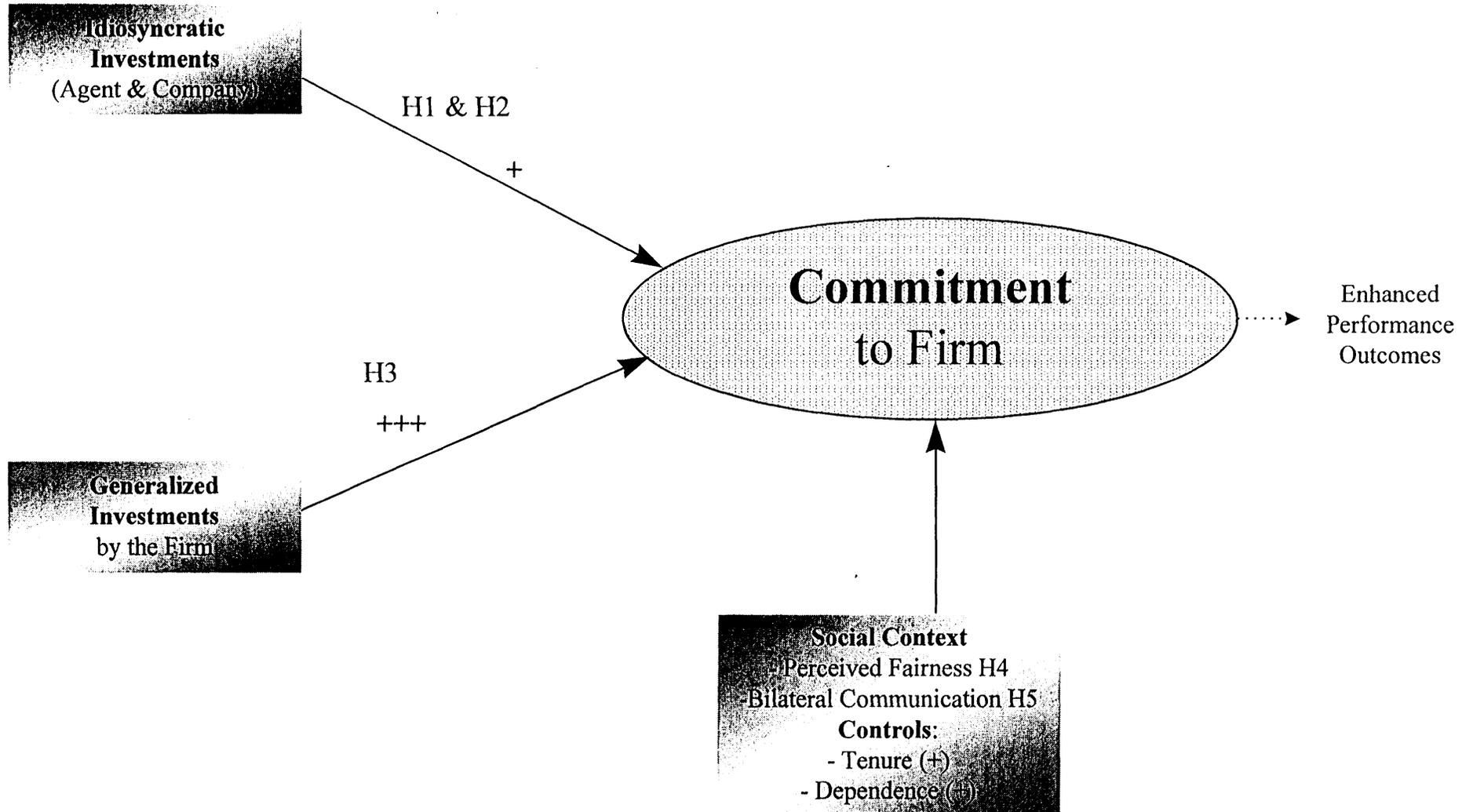


TABLE 1

Correlation Matrix of Commitment Model Scales

	A	B	C	D	E	F	G	H
A	5.319 (1.144)							
B	.394	4.283 (1.413)						
C	.337	.451	4.520 (1.329)					
D	.557	.509	.397	3.554 (1.349)				
E	.657	.345	.318	.569	4.192 (1.197)			
F	.447	.087	-.037	.282	.384	4.066 (1.362)		
G	.023	.019	.051	.074	.014	-.173	21.217 (17.289)	
H	-.219	-.341	-.223	-.276	-.182	.041	-.016	5.158 (5.617)

A = Agent commitment to dyad (agent informant)

B = Agent's idiosyncratic investments in insurer (agent informant)

C = *Insurer's idiosyncratic investments in agent (insurer informant)*

D = Insurer's generalized investments in agent (agent informant)

E = Bilateral communications (agent informant)

F = Trustworthiness of insurer (agent informant)

G = Age of relationship (agent informant)

H = Independence of agent: number of other insurers represented (agent informant)

Diagonal entries: mean (standard deviation)

N = 240

TABLE 2:

**Models Predicting Agent Commitment Levels:
The Effects of Enhanced Mobility**

Independent Variables	Model 1 (Baseline)	Model 2 (Idiosyncratic Investments)	Model 3 (General Investments)
Generalized Investments			.153** (.052)
Agent: Idiosyncratic Investments		.131** (.043)	.088† (.045)
Firm: Idiosyncratic Investments+		.126** (.045)	.104* (.045)
Bilateral Communication	.533*** (.049)	.450*** (.051)	.395*** (.055)
Fairness	.257*** (.043)	.280*** (.042)	.258*** (.043)
Age of Relationship	.058 (.003)	.055 (.003)	.043 (.003)
Agent Independence	-.132** (.009)	-.075† (.010)	-.062† (.010)
Constant	2.36*** (.241)	1.62*** (.291)	1.69*** (.289)
AdjRsquare	.487	.520	.531
F-Statistic	57.7***	44.1***	39.6***
# of Cases	240	240	240
Partial F-Test		.000***	.013**

Standardized Beta coefficients presented (Standard errors in parentheses)

† p ≤ .10 (all one-tailed tests)

* p ≤ .05

** p ≤ .01

*** p ≤ .001

+ *company informant*: all other constructs are reported by agent

Partial F-Test shows the significance level achieved in subsequent models.

Listwise deletion of missing variables.

TABLE 3

Scales and Correlation Matrix for Performance Models

I) Insurer Satisfaction

	A	B	C	D	E
A	4.35 (1.64)				
B	.38	5.37 (1.09)			
C	.22	.11	1.9x10 ⁶ (2.7x10 ⁶)		
D	.33	.28	.32	.35 (.31)	
E	.33	.19	.11	.02	3.69 (1.44)

A = Insurer satisfaction with agent

B = Agent's commitment to insurer

C = Agent's revenue volume written for insurer

D = Insurer's share of agent's revenue (numerator and denominator estimated separately)

E = Product synergy

Diagonal entries: mean (standard deviation)

Italicized measures: Insurer provided

Scale of insurer satisfaction with agent (alpha = .93)

1) We are very satisfied with the relationship we have with this agent/producer.

2) We are displeased with our relationship with this agent/producer. (reversed wording)

3) Our relationship with this agent/producer has more than fulfilled our expectations.

I) Insurer Expectations

	A	B	C	D	E
A	4.35 (1.64)				
B	.32	5.37 (1.09)			
C	.16	.11	1.9x10 ⁶ (2.7x10 ⁶)		
D	.17	.28	.32	.35 (.31)	
E	.37	.19	.11	.02	3.69 (1.44)

A = Insurer expectations of future benefits

B-E= As above

Diagonal entries: mean (standard deviation)

Scale of insurer expectations of benefits

1) This agent/producer is likely to generate substantial benefits to our company over the next three years.

2) This agent/producer is very profitable for our company.

3) In the foreseeable future, we would not be surprised if our relationship with this agent/producer proved less rewarding than it has been in the past. (reverse wording)

TABLE 4:

Models Predicting Agent Performance Levels:

Independent Variables	Insurer Satisfaction		Insurer Expectations of Benefits	
	Baseline	Full	Baseline	Full
Agent Commitment +		.26***		.23***
Agent Volume	.092†	.093†	.07	.08
Insurer Share	.30***	.22***	.14*	.08
Product Synergy	.31***	.26***	.36***	.32***
Constant	2.38***	.63†	3.35***	2.11***
AdjRsquare	.211	.267	.160	.203
F-Statistic	21.7***	22.2***	15.8***	15.8***
# of Cases	234	234	234	234
Partial F-Test		.000***		.000**

Standardized Beta coefficients presented (except constant)

† $p \leq .10$ (all one-tailed tests)

* $p \leq .05$

** $p \leq .01$

*** $p \leq .001$

+ *agent informant*: all other constructs are reported by insurer
 Partial F-Test shows the significance level achieved in full models.
 Listwise deletion of missing variables.

APPENDIX 1 SCALES USED IN COMMITMENT REGRESSIONS

- Notes:
- 1) unless noted otherwise, the response format of all scales is 1-7 (strongly disagree - strongly agree)
 - 2) all items marked (R) were reversed in composing each scale
 - 3) Pretesting indicated that "I" is appropriate wording for agencies, which are usually small entities with which the informant (often the owner) identifies closely.

Agent Commitment to the Insurer

- I defend this agent/producer when others criticize them.
- I have a strong sense of loyalty to this company.
- I am continually on the lookout for another company to replace this company's product.(R)
- I expect to be working with this company for some time.
- My relationship with this company is a long-term alliance.
- I am willing to dedicate whatever people and resources it takes to grow sales for this company.
- Any concessions I make to help out this company will even out in the long run.
- I am quite willing to make sacrifices to help out this company from time to time.

Coefficient alpha: .91

Idiosyncratic Investments

Made by Agent in Insurer

I have made a substantial investment in personnel dedicated to this company.

I have gone out of my way to align myself with this company in the customer's mind.

If I switched to a competitive company, I would lose a lot of the investment I've made in this company.

I have invested a great deal in building up this company's business.

If I decided to stop representing this company, I would be wasting a lot of knowledge that's tailored to their method of operation

If I decided to stop selling this company's products, I would have a lot of trouble redeploying those of my people who are presently serving this company.*

I have made a substantial investment in adopting forms and procedures that are similar to this company's.*

Coefficient alpha: .89 .88

Made by Insurer in Agent

We have made a substantial investment in personnel dedicated to this agent/producer.

We have gone out of our way to align ourselves with this agent/ producer in the insured's mind.

If we switched to a competing agent/producer, we would lose a lot of the investment we've made in this agent/producer.

We have invested a great deal in building up this agent's/ producer's business.

If we decided to stop working with this agent/producer, we would be wasting a lot of knowledge regarding their method of operation.

* Pretesting indicated these items do not have a plausible counterpart for the insurer.

Company's General Investments in Agent

- This company gives me useful assistance when it comes to running my business.
- This company has been genuinely helpful in showing me how to grow my business.
- I have used this company's advisory services to help me grow my business.
- This company gives me good advice about how to make my business grow.
- I have used this company's advisory services to help me operate my business.
- This company subsidizes a good deal of my office expenses.
- I get no help from this company to cover my expenses.
- This company offers to subsidize my automation.
- This company is willing to subsidize automation if you ask.

Coefficient alpha: .89

Bilateral Communication

- My agency/producer and this company make it a point to keep each other well informed.
- I hesitate to give this company too much information. (R)
- I am quite involved in the marketing and planning efforts of this company.
- This company seeks our advice and counsel concerning their marketing efforts.
- My relationship with this company is like an open book.

Coefficient alpha: .75

Agent's Perception of Company's Trusworthiness

- I trust this company to deal fairly with me.
- This insurer has a reputation for fairness in dealing with agents.
- Some agents think this insurer only looks out for itself.(R)

Coefficient alpha: .86