

**FROM SECURITY TO MOBILITY:  
GENERALIZED INVESTMENTS IN HUMAN  
ASSETS AND AGENT COMMITMENT**

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**97/92/OB/MKT**

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Printed at INSEAD, Fontainebleau, France.

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INSEAD Working Paper

20-Oct-97

Please do not quote without the authors' permission. We are grateful for the comments and advice of Marla Tuchinsky, Karel Cool, William Ross, and 3 anonymous reviewers of the Academy of Management Yearly Meetings.

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**ABSTRACT**

This paper considers the impacts of different investments in human assets (relation-specific vs. generalized investments) on employee commitment to the firm. The resource-based literature has stressed that only firm-specific human assets are likely to generate organizational rents, since those assets are more likely to be inimitable, rare, and therefore a better basis for sustained competitive advantage. Generalized investments in human assets (i.e., investments in capabilities that people can transfer and deploy with other firms or in other settings) are to be avoided. However, observing lessons from the literatures on psychological contracts and organizational commitment, we argue that generalized investments may have value for the firm through their effects on worker commitment to the firm. The gains in worker commitment is valuable to firms given the fragile state of the contemporary employment relation, where the lack of job security is likely to breed diminished employee commitment. This is particularly a concern for employment relations consisting of externalized labor (i.e., contract work or self-employed professionals operating as agents of the firm) where agent commitment is vital but likely to be more scarce. In this paper we focus on the externalized workers (independent agents) of two insurance firms in addressing these issues. A sample of 237 agents shows support for the benefits of generalized investments on agent commitment, questioning conventional wisdom that such investments should be avoided. We also examine the impact of relation-specific investments and other key antecedents on agent commitment, concluding that a mixture of strategic investment in human assets should be considered, taking into account their impacts on the firm-worker psychological contract. We also examine the impacts of agent commitment on agent performance in this context, finding committed agents do provide greater value to the insurer.

**(Keywords: Employment Relation, Commitment, Investment in Human Assets)**

## INTRODUCTION

“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. 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 held about the terms of exchange underlying the relationship. For much of this century the employment relation has been characterized by a remarkably clear psychological contract, involving the exchange of employee commitment and loyalty for employment security within the firm. Two recent trends, however, 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 (see Hirsch 1987; Tichy and Charan 1989; Waterman, Waterman and Collard 1994; Nocera 1996). Second, there has been a steady increase in the externalization of work (i.e., self-employed or contract labor) (Pfeffer and Baron 1988; Pfeffer 1994). This has meant that more and more “employees”<sup>1</sup> of firms are operating as its “agents”—outside of its immediate control (locationally, temporally, and administratively) and are therefore less likely to closely identify with and remain committed to the firm, in many ways redefining the traditional

employment relation into principal-agent terms (see Pfeffer and Baron 1988; Holmstrom and Milgrom 1994).

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. This is particularly problematic amidst dynamic competitive environments, where commitment, loyalty, and the extra-role behaviors they may induce are highly valuable (Heath, Knez and Camerer 1993). At the individual level, agents are more likely to face increasingly competitive and hostile job markets, where they must be concerned with marketing their human capital (Hall 1996). Such individuals therefore face increasing needs for general skill development, that is skills which can be transported to other jobs or situations and thereby increasing their mobility, their “security” now resting in the development and maintenance of their human capital (cf. Becker 1983). Where such general skill development is lacking, or where capabilities are highly firm-specific, the likelihood of unemployment (particularly longer term unemployment) is higher, along with the accentuated psychological stress immobility may create. What can be done about the contemporary employment relation?

This paper reports an empirical study of an emerging perspective on the contemporary employment relation. It examines the impact of firm-specificity in human assets versus generalized firm investments into human assets on the organizational commitment of externalized workers (independent insurance agents of two insurance firms). This emerging perspective suggests that although firms can no longer offer individuals life-time job security in return for commitment, they can offer greater assurances of remaining competitive in the job

market, through more attention to general (as opposed to firm-specific) skill development and training (e.g., Waterman, Waterman and Collard 1994; Bartlett and Ghoshal 1995). By providing general skill development, firms increase agent prospects of remaining employable, thus potentially reducing their anxieties over diminished job security (i.e., not being “bound” to one firm), decreasing the likelihood of future unemployment, and, most importantly from the point-of-view of the firm, potentially securing valuable loyalty and commitment while they serve the firm.

Of course, firms are likely to regard this as a risky and possibly costly proposition. Resources spent on improving the general skill development of employees will be resources lost if those employees terminate the employment contract (Amit and Schoemaker 1993). Particularly in cases of externalized labor, the firm would have even greater fears of losing their investments since those investments may be more readily deployed to serve other employers. 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 of, and trend towards, creating a more mobile and flexible workforce, what would induce firms to invest in the general skill development of their employees (particularly externalized agents)? What argument and theory could support such resource allocation when it is riddled with such risk and potential cost to the firm? In this paper we argue that the potential positive effects on agent commitment levels are a valuable outcome of firm investments into general skill development and other

transferable resources. Because agent commitment, and its consequences (i.e., extra-role behavior, good “citizenship,” even lower turnover), are at a premium in dynamic contexts, actions to enhance commitment levels through more attention to general training and skill development may be worth the apparent risks, particularly if increases to agent commitment are significantly above and beyond what firms might expect from other sources of commitment. What ostensibly seems a risky allocation of resources may be a worthwhile strategic investment in human assets.

Below, we test this perspective using dyadic data on employment relationships from the insurance industry, where we examine the employment relation between insurers and their agents. First, after specifying what we mean by an “employment relationship,” we develop the nature of the debate surrounding the contemporary employment relation, pointing out the lower incidence of life-time security and the growing incidence of mobile, quasi-independent “knowledge” workers. In particular, we highlight attempts to formulate a new psychological contract based on firm investments in the general skill development of human assets, drawing on the resource-based view and organizational behavior literatures to point out the perils as well as advantages of this perspective. Second, we then formulate a model of agent commitment and test the consequences of general investments in agents. In addition, we also examine some of the performance consequences of enhanced agent commitment in our sample. We conclude with a discussion of our findings.

## **BACKGROUND**

## Defining the Employment Relation

We define the employment relation as fundamentally composed of a “psychological contract” (Rousseau 1989; Rousseau 1990). In general, two type of contracts can be distinguished: *transactional contracts* (i.e., easily observable, economic contracts of fixed duration and scope, such as various forms of wage contracts) and *relational contracts* (i.e., less formalized, subjective understandings of 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/agents. This more perceptual and subjective lens is germane to our objectives for two reasons. First, our focus is on the uncontracted investments and exchanges that make up the contemporary employment relation, such as investments in human capital development (on the part of employers) and feelings and acts of commitment and loyalty towards the firm (on the part of employees). These exchanges, seldom codified in formal employment contracts, represent relational contracts, establishing mutual obligations and understandings on the nature of the employment relationship.

Second, these relational contracts exist and are relevant regardless of the exact transactional contract involved; whether the employment relation consists of firms and traditional, “internalized” workers or firms and contract labor, some form of relational contracting will take place (Rousseau and Parks 1993). Having as a focus the relational contract is particularly relevant today, where there exists a definite trend toward the externalization of work, as Pfeffer and Baron have shown (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 who are peripheral members of the firm, part of a general increase in the variety of transactional contracts (Carroll 1994). This growth in forms of transactional contracts has therefore made it a less unequivocal and parsimonious basis for defining the contemporary employment relation. Relational contracts, on the other hand, which speak to various forms of transactional relations, seem a more appropriate basis for discussing the employment relation.

### **The Traditional Employment Relation**

The traditional psychological contract was based on employment security (Waterman, Waterman and Collard 1994): employees (mostly internalized) exchanged commitment and loyalty (above and beyond that which their wages secured) for job security. The benefits to the organization included the multi-faceted displays of this employee commitment (Porter et al. 1974; Allen and Meyer 1990; Mathieu and Zajac 1990; Iverson and Roy 1994; Becker, Randall and Riegel 1995), including extra individual effort, enhanced cooperation and teamwork, and a positive image to the extant labor market (facilitating recruitment) (Pfeffer 1994). The benefits to the employee were 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).

It is widely acknowledged that the traditional psychological contract has been disrupted (e.g., Waterman, Waterman and Collard 1994; Economist 1996; Hall 1996; Nocera 1996;

Rousseau 1996). For the most part, demands for increased speed and organizational flexibility (D'Aveni 1994; Teece and Pisano 1994) have made it difficult for many firms to simultaneously honor employment security. For example, 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.<sup>2</sup> The fact that this trend continues during current periods of relative economic growth and prosperity (see Nocera 1996), suggests that perceived changes in the employment relation are not simply cyclical but structural. The previously mentioned trend towards externalized labor adds support to the reality of more loosely bound employees (Pfeffer and Baron 1988; Carroll 1994). Under such employment contracts, the uncertainty of long-term employment with a firm is even more immediate since diminished attachments to a firm are, in effect, formally contracted.

The implications of the demise of the traditional employment relation are at least twofold. First, individuals are faced with more frequent entries into a competitive labor market, some becoming self-employed and selling their services to firms. Defined by the knowledge that they carry (Drucker 1993), individuals are likely to be concerned with the development and marketability of their human capital (Hall 1996). Second, firms face a dilemma: while the nature of the competitive context requires the benefits of worker commitment and loyalty, an externalized employment relation makes commitment less likely to exist. From the worker's perspective, if they must constantly be on the look-out for alternative employment options, requiring the modification of their skill sets often over the course of a lifetime, what will they seek from firms? From the employer's perspective, how do firms make investments in human

assets in order to secure the commitment levels that they require under such employment contexts?

### **Firm Investments in Human Assets: Firm-Specificity and Generalized Investments.**

The resource-based literature holds that one of the key strategic (i.e., rent generating) assets of the firm are its human assets (Barney 1991; Amit and Schoemaker 1993; Coff 1997). By human assets we will mean the know-how, information, relationships, and general capabilities that individuals bring to bear on behalf of the firm through the employment relation. One particular attribute of human assets plays an important role in the value firms may derive from these assets—the extent to which human assets become firm-specific. Firm-specific human assets refer to those human resources that are only deployable with a given firm or industry (Coff 1997). General resources, on the other hand, are deployable in various firms or industries (e.g., such as general management skills and interpersonal skills).

Traditionally, firms have been encouraged to make investments into human assets so as to increase their firm-specificity (Amit and Schoemaker 1993). First, firm-specificity is associated with highly-stylized—and potentially efficiency-seeking—behaviors on behalf of the firm by employees (Williamson 1981). It is also associated with the creation of inimitable and rare strategic assets, that is assets which cannot be easily appropriated by competitors, and therefore assets which have the potential to generate sustained competitive advantage (Barney 1991; Amit and Schoemaker 1993). Moreover, to the extent that human-assets are firm-specific, they are likely to reduce the threat of turnover in the firm (Coff 1997), even generating commitment to the firm on the basis of binding worker interests with those of the firm. On the

other hand, investments into general skills increase the potential for turnover, and therefore the loss of some of the investment made. This is particularly problematic in the case of externalized workers, where agents are likely to deploy those assets with other firms (now or in the near future). Although such generalized investments may provide positive immediate returns (i.e., improvements in human capacity to complete some task, as with firm-specific investments) the positive *indirect* consequences of firm-specific investments (i.e., inimitability) makes them seemingly more valuable, as echoed in *The 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]

Although we do not deny the traditional advantages of developing firm-specific human assets, changes in the nature of the contemporary employment relation have generated arguments that lend some support to generalized investments. From the point of view of externalized workers, investments in the development of general (transferable) qualities are likely to be highly desired under present conditions (Waterman, Waterman and Collard 1994; Bartlett and Ghoshal 1995; Ghoshal, Moran and Bartlett 1996). But there are also potential benefits for the firm. As with firm-specific investments, these exist largely through the *indirect* effects of such investments—in this case, *through their impact on the terms of the psychological contract*. By making investments into human assets which acknowledge worker fears of becoming stagnant and less mobile in a dynamic labor market, firms signal their commitment to the well being of these individuals. Given human norms of reciprocity, such investments, through the

psychological contract, may potentially reap valuable commitment to the firm.<sup>3</sup>

The value of commitment to firms under turbulent industry and labor contexts should be emphasized. As Simon asks, “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 1991 p34). Simon goes on to note that 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 remuneration. Instead, they require their employees to work with “initiative and enthusiasm,” taking personal responsibility in maximizing firm outcomes and exhibiting loyalty and commitment (Simon 1991).<sup>4</sup> A substantial literature examining the antecedents and consequences of organizational commitment lends support to these arguments, finding commitment a predictor of extra-role behavior and citizenship ( e.g., Katz and Kahn 1978; O'Reilly and Chatman 1986; Morrison 1994; Podsakoff, MacKenzie and Bommer 1996), positive affect (O'Reilly and Caldwell 1980; Mowday, Porter and Steers 1982), job performance (Angle and Perry 1981), conscientiousness and nonidleness (Hunt and Morgan 1994) and, importantly for generalized investments, lower turnover (Porter et al. 1974; O'Reilly and Chatman 1986; Cohen 1993; Hunt and Morgan 1994; Iverson and Roy 1994; Jaros 1995). In the past, high levels of commitment may have been fueled by job security. Given the growth in externalized workers and job insecurity, replenishing employee commitment seems more important than ever.

Thus, despite the apparent risks of generalized investments, do they bear benefits vis-à-vis their potential impact on the psychological contract? Specifically, *do investments in the*

*general skills and resources of workers by firms lead to greater commitment from workers to the firm above and beyond that expected from other potential sources of commitment, including relation-specific ties?* Below we propose and empirically test a model that addresses this focal research question (see Figure 1). Our setting is the insurance industry, where we studied the employment relationship between two insurance firms and their agents.

**Figure 1 about here**

## **A MODEL OF THE ROLE OF GENERALIZED INVESTMENTS IN HUMAN ASSETS ON AGENT COMMITMENT**

### **Conceptualizing Commitment**

Research on organizational commitment has produced a variety of definitions and measures of the construct (for a review see Mathieu and Zajac 1990), including *attitudinal* commitment (identification with an organization, acceptance of its values, involvement in its affairs and desires for membership) (Porter et al. 1974; Mowday, Porter and Steers 1982; O'Reilly and Chatman 1986; Allen and Meyer 1990), *behavioral* commitment (turnover intentions) (Iverson and Roy 1994), and *calculated* commitment (commitment based on the costs of leaving the organization or “side-bets”) (Becker 1960; Allen and Meyer 1990). There has also been interest in the exact *foci* of commitment (whether commitment is given to an individual, group, or organization) (Becker, Randall and Riegel 1995; Becker et al. 1996).

Although there is no clear consensus on defining commitment (see O'Reilly and Chatman 1986; Mathieu and Zajac 1990), the most commonly studied and encompassing form of

commitment has been *attitudinal* commitment (Mathieu and Zajac 1990), also the form of commitment we focus on. We therefore define commitment on the basis of emotional attachment and sense of loyalty and responsibility to an organization (e.g., “I have a strong sense of loyalty to this company”), including willingness to exert effort for the organization (e.g., “I am quite willing to make sacrifices to help out this company from time to time”) and desire to maintain a stable and long-term relationship (“My relationship with this company is a long-term alliance”) (cf. Porter et al. 1974). This general interpretation of commitment is the most appropriate predictor for the types of consequences from commitment that we are concerned with, such as extra-role behavior and good citizenship (see Morrison 1994). Although our construct absorbs Porter et al.’s (1974) notion of maintaining membership (and therefore reducing likelihood of turnover), we do not focus specifically on behavioral commitment since firm investments in human assets, in our thinking, are only partly predicated on lower turnover likelihoods—they should be primarily predicated on the returns to those investments in the way of improved skills and capabilities.<sup>5</sup> We add, however, that there is evidence that attitudinal commitment is a reasonable predictor of behavioral commitment (Iverson and Roy 1994). Finally, in terms of foci, we are concerned solely with commitment directed at an organization.

### **The Role of Relation-Specific Investments**

An important source of commitment is the level of investment that each party in a relationship makes which is specific, or idiosyncratic, to the relationship (Williamson 1985). As noted, in order to ensure rent appropriation, firms may encourage highly tailored and specialized resources (Conner 1991; Amit and Schoemaker 1993), resulting in the close-coupling of agents

and the firm. However, such relation-specific investments may also have benefits vis-à-vis their impact on the commitment levels of workers. In practical terms and with an eye to influences on agent commitment, relation-specific investments can be detected in at least two ways: agents can be seen to develop and deploy their resources in firm-specific ways and the firm can be seen to make idiosyncratic investments in its agents. Both have consequences for agent commitment.

**Idiosyncratic investments by agents.** Idiosyncratic investments involve the deployment of resources in a relation-specific manner (Anderson and Weitz 1992). Idiosyncratic 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 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, establishing a “common fortune” situation. Agents bound to the firm are also likely to face higher costs of leaving, since they face fewer employment alternatives (cf. Allen and Meyer 1990; Jaros 1995). Although such binding may increase the cost of terminating the relationship (and therefore increase calculated or continuance commitment) it is also likely to increase attitudinal commitment through *ex post* rationalization and justification processes (see O'Reilly and Caldwell 1981). 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.** In encouraging firm-specificity, the firm

may deploy its resources in a highly relation-specific manner as well, binding *itself* to the agent. Although the effect may be to reduce firm flexibility, it is likely that agents will 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 simply self-interest in the previous case. Furthermore, we put forward this hypothesis in order to point-out that while firms may desire and encourage the development of firm-specific human assets (captured by H1), they are unlikely to be free from some binding of their own. Most importantly, such commitments by the firm are likely to influence agent commitment. 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 advantages of developing firm-specific human assets, we have argued that there are nevertheless potential benefits to generalized investments in human capital, particularly for externalized workers, where commitment is likely to be a concern for companies and labor market mobility a concern for workers. Specifically, agents are likely to value general investments into their capabilities made by the firm. General investments in the agent would be those that the agent can clearly deploy in alternative employment relations. Such investments will increase their market value and long-term “security” as insurance agents. Moreover, because such investments may be interpreted as more altruistic—displaying concern for the agent *per se* rather than 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 agent will increase the commitment of the agents to the firm above and beyond those levels attributable to other sources of commitment.***

### **Baseline Model and Control Variables**

Below, we specify a baseline model that considers alternative sources of commitment and relevant controls given the above claims. We consider one potentially important source of employee commitment, the social context of the employment relationship, developing several competing factors for employee commitment.<sup>6</sup>

### **The Role of the Social Context of Exchange**

A general source of enhanced agent commitment is based on the social nature of the relationship between parties. 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 normative features of the relationship. This also seems fitting given our interpretation of the employment relation as a relational contract, meaning an emphasis on its

social quality. In general, to 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. In particular, two antecedents used in the commitment literature are useful to consider when examining “social context:” a) fairness and b) levels of communication (Allen and Meyer 1990; Iverson and Roy 1994)

**Employer fairness.** One important contextual feature of any relationship is the extent to which parties perceive equity or fairness in the relationship. 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 has towards the firm. This should also invoke a strong sense of commitment on the part of the agent for the firm. Therefore:

***H4: The level of fairness on the part of the firm, as perceived 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**

**Age of Relationship.** 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, noting its association with commitment in previous studies of organizational commitment (see Mathieu and Zajac 1990).

**Agent dependence on the firm.** As noted previously, firm-specific investments are likely to breed calculated commitment (based on fewer job options (Becker 1960) and therefore greater dependence (Emerson 1962)) and not just attitudinal commitment. Wishing to focus on attitudinal commitment, we control for “side-bet” sources of commitment by examining the dependence of the agent on the firm (i.e., the number of alternative employment relationships the agent has established). In general, the fewer work alternatives the agent has, the greater the expected agent commitment.

**Agent Age and Job Level.** Finally, the commitment literature commonly measures two demographic antecedents of commitment to an organization: age (older employees are likely to

be more committed to the firm, attributed to their greater satisfaction with their work than for younger employees or having cognitively justified remaining with the organization (Meyer and Allen 1984)), and job level (higher ranking personnel display greater commitment, possibly because they more closely identify with the firm (Mathieu and Zajac 1990)). These are some of the most frequent antecedents used in the commitment literature when examining individual commitment within a traditional employment relation (Mathieu and Zajac 1990). We include them in our analysis of an externalized employment relation since both demographic features seem relevant. First, agent age may influence the agent's satisfaction with their chosen occupation (selling insurance) and may carry-over to their commitment to the insurer. Second, respondents worked within typically small agencies where they were often the owners (84% of cases). In some cases (16%), however, they were not owners of their agencies. We therefore control for their job position, distinguishing owner from non-owner agents. Arguably, owner agents should display greater commitment to the insurer.

### **Consequences of Agent Commitment**

Finally, although our primary focus in this paper is on the impacts of various investments on commitment levels, it would be useful to assess whether agent commitment has any payoffs for the firm. We will therefore examine two general indicators of agent performance available to us in this context: (a) insurer's level of *satisfaction* with the agent (insurer reported) and (b) insurer's *expected future benefits* from maintaining this agent (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.

## **METHODS**

### **Data Sources**

The North American insurance industry is the setting for this study. The employment relationship studied is between insurance companies (insurers or underwriters) and their salesforces. These salesforces are independent insurance agencies, which are paid commissions by the insurer for each policy they sell. In some ways, these agencies are similar to traditional (internalized) employee sales forces paid on commission (see Anderson and Oliver 1987). For example, the mean age of the insurer-agent relationship in our sample is 21 years, reflecting the sort of longevity one expects to see in more traditional employment relationships. Nevertheless, these agencies operate out of their own premises, often representing more than one insurer. Hence, they are more mobile than an internalized salesforce and their concern with remaining mobile and competitive likely to be greater. Most importantly, they are a good representation of the growing trend in externalized labor (Pfeffer and Baron 1988).

From the insurer's perspective, studies of the insurance industry suggest that commitment is generally a scarce commodity under this form of employment relation yet of great importance for performance (Regan 1996). There has been a general reduction in the number of agents in the last fifteen years in the US insurance industry, with the surviving agencies growing larger (Regan 1996) and insurers being more conscious of agent attention and loyalty. Many insurers are therefore interested in committed relationships with agents in order to improve the quality and

vigor of their field representation, and 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). There has also been 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. Insurers are particularly mindful of making productive investments into their salesforce, wishing to secure committed and effective agents. 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. As an overview, the data collection procedure consists of nomination by the insurer of an individual from the insurer and from the agency who is thought to be the best (most knowledgeable) informant about the relationship for each side. Each nominee reports on the (specified) relationship from the viewpoint of his/her side of the dyad. Below, we describe the procedure in detail.

From 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 the 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 employment relation it concerned (the insurer and the agent) and asked for a report about the relationship. Both agent and insurer informants were instructed to respond on behalf of their companies. Pretesting indicated that the agent informants preferred the wording "I" while insurer informants preferred the wording "we." In accord with Campbell's (1955) admonition to speak in the language of the respondent, the questions were worded accordingly. 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 initially supplied 151 pairs from internal lists. However, Firm B later informed us that approximately 1/3 of the 151 pairs were no longer current. After this correction, Firm B's response rate was 53% for agents and 82% for insurer employees. Response rates for firms A and B are fairly high on both sides of the dyad. Examination of earlier and later responses indicated no systematic differences, suggesting that non-response bias is not a serious threat. Ultimately, after deleting a small number of observations with missing data, there are 297 agents and 368 insurers available for measure development, from which 237 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, and 3) factor analyzing the pre-specified items to verify that they are indeed unidimensional. This in turn requires 1) that the first factor accounts for substantial variance in the entire set of items, 2) that no other factor is substantively distinct and important, and 3) that all items load highly (at least 0.4), with the theoretically appropriate sign, on the first factor. 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.** This is measured via eight items put to the agent. As noted, our interest was in measuring attitudinal commitment. Accordingly, the items used tap the agent's loyalty to the insurer and the efforts they made to maintain the relationship (both behavior and willingness to sacrifice) (cf. Porter et al. 1974; Mowday, Porter and Steers 1982). This scale reflects desire, belief, and action towards the solidarity of the relationship with the (named) insurer (see also Ross, Anderson and Weitz 1997). Comparing this scale to Allen and Meyer's commitment scale (1990), the focus of the questions is mostly on normative commitment (based on loyalty), and 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 do 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.

**Relation-specific investments.** 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, 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 point 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.<sup>7</sup>

Likewise, the insurer reports its level of idiosyncratic investment in the relationship with this agent. Such investments take the form of dedicated personnel to this agent, acquiring

knowledge particular to the agent's operations, and aligning the underwriter with the agent in presenting the underwriter to policyholders.

**Generalized investments.** 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, 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 in general, advice on how to grow a business, and the possibility of subsidies to help the agent acquire or upgrade computing capabilities ("automation").<sup>8</sup>

These latter computing investments are an important issue in the industry. Many of the agencies in our sample were primitive in their computer usage (a situation which is improving 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. Several studies, for example, have demonstrated the substantial impact of computer information technology expenditures on the performance of the insurers themselves (Harris and Katz 1991) and agents on their behalf (O'Callaghan, Kaufmann and Konsynski 1992; Zaheer and Venkatraman 1994). In short, automation is a critical issue in insurance and an important source of general business assistance for the agent.<sup>9</sup>

**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, and freely giving advice and information. (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 fairness* 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.

**Controls.** *Age of relationship* is measured as the age in years of the relationship between this insurer and agency. *Agent dependence* is measured by asking the agent how many other insurers the agent represents (note that a higher number on this measure will reflect relatively *less* dependence). 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 agent is dependent on the firm from an employment standpoint. *Agent Age* is the respondents age in years. *Agent level* is the respondents position in the agency, scored a 1 for agents who were also owners and 0 for agents who were not owners. As noted, 84% of respondents were of the owner/agent variety, as expected given these were often small, personal-business agencies.

**Agent performance for the insurer.** Two scales were used to measure agent performance for the insurer. One scale measures the insurer's level of *satisfaction* with the relationship (insurer reported—alpha .93) while the other measures the insurer's *expected future benefits* from the relationship (insurer reported—alpha .83). Given the different regions and/or products these agents may carry for the insurance firm, these subjective assessments by the insurer seemed to be a suitable way to make fair comparisons between agents. Nevertheless,

three controls for agent performance were 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. 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 with 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 relation-specific 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 the 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, unsurprisingly, that making investments between insurers and agents requires communication and that firms, when they choose to invest, often do so in several ways. 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. Examining the full model, hypotheses are generally supported, albeit at various levels of significance and with varying impact on commitment.

**Relation-specific investments.** Idiosyncratic investments do appear to play their hypothesized role in the relationship. First, hypothesis 1 is modestly supported. The more the agent perceives his/her assets are highly specific to the insurer, the more the agent is committed to the insurer ( $\beta = 0.106, p < .05$ ). It would seem, therefore, that where greater bonds with the insurer are 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 other firms she/he could turn to should the relationship with this particular insurer terminate. (We note that firm-specific investments by the agent and agent dependence were only modestly correlated (-.34), lending some support to the

separation of these constructs.) This would then suggest that the commitment generated by 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 would also point to another reason for firms to encourage investments in firm-specific human assets—they may engender commitment, as well as inimitable assets.

Hypothesis 2 showed similar levels of support ( $\beta = 0.114$ ,  $p < 0.05$ ). The insurer's idiosyncratic investments into the relationship 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 to the firm. Comparing this to Hypothesis 1, commitment seems as much a consequence of the norm of reciprocity as simply an artifact of mutual self-interests. 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 when the firm is reciprocating in kind (see also Anderson and Weitz 1992).

**Generalized Investments.** Hypothesis 3, our central hypothesis, received somewhat better support than H1 or H2. Generalized investments by the insurer had modestly greater impact on agent commitment than the other forms of relational investments ( $\beta = 0.158$ ,  $p < .01$ ). Model three is also a significant improvement in predicting agent commitment over model two ( $p < .001$ ), which includes both firm-specific investments, baseline model and controls. Nevertheless, we are cautious in interpreting these results. While the rewards of generalized

investments are commitment levels that are a statistically significant improvement on those levels obtainable by other plausible sources, the beta levels from generalized investments on their own are not a dramatic improvement over other sources, the implication of which we shall discuss.

**Social Context and Controls.** Both hypotheses 4 and 5 were strongly supported.

The social context of the relationship plays a powerful role in the development of commitment. Agents who believe the insurer to be fair and trustworthy are considerably more dedicated (beta= 0.297,  $p < .001$ ), as are agents who have open and bilateral communications with the insurer (beta= 0.351,  $p < .001$ ). 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 (beta= 0.026,  $p > .1$ )—what seems to matter for commitment is the *intensity* of the experience, rather than mere duration. Agent age, as in the commitment literature, is a significant predictor of commitment (beta= 0.091,  $p < .05$ ), as is agent position (beta= 0.076,  $p < .05$ ) with owner/agents exhibiting more commitment to insurers than non-owner agents.

### **Agent Performance**

Table 3 shows the performance scales we used as well as the correlation matrices for the analysis. 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 alternative sources of insurer praise. 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, they are more satisfied with and expect greater benefits from a committed agent.

**Tables 3 & 4 about here**

## **DISCUSSION**

We return to our motivating question: Why would firms make generalized investments in human capital when such investments pose such risk? Our response is based on the impacts on commitment and its consequences. We also discuss the limitations to this study, implications for traditional employment relations, and possible future research directions.

**Enhancing employee commitment.** Our results suggest that commitment levels can be enhanced through generalized investments in human assets. Although the gains to commitment from this source of investment were, in an absolute sense, modest, they are noteworthy in comparison to relation-specific investments—a unit increase in generalized investments had 49% more impact than firm-specific investments made by agents. We do not suggest that firms eschew encouraging and developing firm-specificity in the employment relation (discussed below) only that, given scarce resources for investing in human asset development, generalized investments may yield benefits worth considering and should not be

dismissed (Amit and Schoemaker 1993). This is particularly notable given the deterioration of employee loyalty (Hirsch 1987), and particularly its threat to externalized employment relations (Pfeffer and Baron 1988). If, as Simon (1991) suggests, loyalty and commitment are the most important sources of firm effectiveness, then attempts (perhaps even seemingly risky ones) to increase commitment may be worthwhile. This is particularly relevant for the insurance industry, where commitment by the externalized salesforce to the insurer is of great concern (Regan 1996). Generalized investments in human assets may be a viable and useful strategic investment in such settings.

This study, however, also revealed side-benefits of relation-specific investments. The resource-based view of the firm recommends firm-specificity in asset development on the grounds that those assets are inimitable, rare, and therefore a better basis for sustained competitive advantage (Barney 1991; Amit and Schoemaker 1993). We add that such investments also contribute to agent commitment to the firm (even while controlling for agent dependence on the firm). Although such binding to one firm could be a source of heightened anxiety and may incur socio-economic costs (vis-à-vis greater likelihood of unemployment since the human assets developed are not easily deployable in other contexts), encouraging such investments should not impair commitment.

Importantly, we also add that the value of relation-specific and/or generalized investments in our model comes about through the logic of the psychological contract (Rousseau and Parks 1993). While investments generate (or do not) direct benefits (i.e., improved skills and capabilities) our focus has been on the indirect impacts of such investments through the motor of

relational contracting. Where the desired outcome is something as abstract as employee commitment and impossible to formally contract, focusing on the relational-basis of the employment relation is necessary. In turn, this should encourage heightened attention by firms on the relational implications of the investments that they make in human capital.

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 given the influence of similar measures in the commitment literature (Mathieu and Zajac 1990). Moreover, 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, although contracts cannot be ignored in our results. This result is also in keeping with the direction and substance of the commitment literature, which has, on the whole, shown that predicting commitment cannot be easily reduced to one or a few constructs (nor is it a matter of firm-specific OR generalized investments) but rather a mixture of various forces (Allen and Meyer 1990; Mathieu and Zajac 1990).

**Agent performance and commitment.** 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. This confirms to some degree 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 relation-specific, investments are really worth their benefit when considering the risks. First, although they provide appreciable gains in commitment, it could be that they also stand a greater chance of being lost since, by their nature, they make agents more mobile than idiosyncratic investments. While acknowledging that some such risk is likely to remain, we point out that while generalized investments may increase the options an individual has to turnover, they do not necessarily raise turnover motivation or behavior—the opposite may be true. In fact, evidence suggests that attitudinal commitment is a predictor of behavioral commitment (i.e., commitment that reduces turnover likelihood) (e.g., Iverson and Roy 1994). Nevertheless, this remains an important empirical question to examine.

Second, we have not addressed the marginal cost of generalized versus relation-specific investments. That is, even though generalized investments may generate additional commitment, they may be more expensive for the firm to make versus investments that encourage firm-specificity. This is also an empirical question beyond the scope of the current study. We suggest, however, that the answer may be highly context specific. For example, some settings are likely to be much 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 such cases, 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 costs to the firm. Our purposes are more modest in this study—to show that generalized investments, vis-à-vis psychological

contracting, may have appreciable impacts on agent commitment when compared to other relevant sources.

Finally, it may be worthwhile to study the impacts of firm investments in human capital in more traditional employment relations. What can our study say specifically about such contexts? Employee desires for job mobility and general training would plausibly be greater in contexts where the employee is, in the short-to-medium term, only attached to one firm. Because opportunities to work simultaneously for other firms (i.e., alternative sources of livelihood) are restricted, workers in these contexts may be more appreciative of investments which boost their ability to compete in the labor market. Arguably, our context would be a conservative test of the value of generalized investments in traditional employment relations. On the other hand, externalized workers, because of the persistent pressures they face in maintaining assets that are highly desired in the marketplace, may be conditioned to appreciate the value of generalized investments. Such workers would be more likely to respond positively to generalized investments made by their employers than internalized workers. These alternative interpretations suggest a direction for further research. The hope is that future research will examine more broadly, in various employment contexts, the issue of investments in human capital and their implication for worker commitment.

## **CONCLUSION**

This paper examined the impacts of different investments in human assets (relation-specific vs. generalized investments) on employee commitment to the firm. Based on the reasoning of psychological contracting, we have maintained that generalized investments in

human assets may be a worthwhile investment strategy for firms to consider. While generalized investments have been seen as risky investments which should be avoided in favor of developing firm-specific human capital, our results suggest preliminary grounds for making generalized investments. Notably, generalized investments were seen to add appreciably to the stock of agent commitment to the firm, even while controlling for other relevant sources of commitment. We have argued that firms should particularly care about enhancing its members' commitment in recent times, when the traditional employment contract is strained, or in employment relations that consist of externalized labor, where firms may have to compete for a share of agent loyalty. While encouraging the use of generalized investments, we have not maintained that firms should eschew encouraging firm-specificity, noting its benefits to agent commitment (along with its untested benefits of being an inimitable resource). Nevertheless, if the trend towards more loosely coupled employment relations continues in developed economies, with individuals being keenly sensitive to maintaining and developing their human capital, firms wishing to compete in such labor markets may have to take ever greater account of generalized investments.

## ENDNOTES

<sup>1</sup> Our analysis, focusing on the agents of an insurance firm, will maintain the “agent” terminology in developing our theory and hypotheses, highlighting the “externalized” worker form of employment relation as described by Pfeffer and Baron (1988). We will use the term “employee” liberally, to signify both traditional, internalized employees and externalized agents who are more loosely connected to the firm.

<sup>2</sup> 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.”

<sup>3</sup> Although firm-specific investments are likely to breed employee commitment (see Williamson 1985), it is plausible that firm-specific training would be of less interest to employees *relative* to general firm investments, since it would do less for their mobility in an increasingly competitive labor market

<sup>4</sup> 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)

<sup>5</sup> The notion of calculated commitment in our model is reflected in our predictors (i.e., firm-specific assets) and therefore remains distinct from our criterion construct.

<sup>6</sup> Other antecedents commonly employed in this literature are personal characteristics of the worker, job characteristics, and organizational/relational characteristics (see Mathieu and Zajac 1990). While we will examine personal and organizational/relational antecedents, we note that because of the substantial similarity in agent’s tasks, we do not consider job characteristics.

<sup>7</sup> We note that having the agent report on the firm-specificity of its assets in this relationship seemed the more direct way to access information on how the firm was managing its human assets (rather than the more awkward approach of asking the insurer to identify to what extent do firm investments in human assets generate firm-specific assets with this agent).

<sup>8</sup> As general investments are a behavior of the insurer, it would be reasonable to ask the insurer to report the investments. However, by asking agents to report what investments they received, 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.

<sup>9</sup> 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 generalized investment scale is predominantly transferable (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 firm-specific investments.

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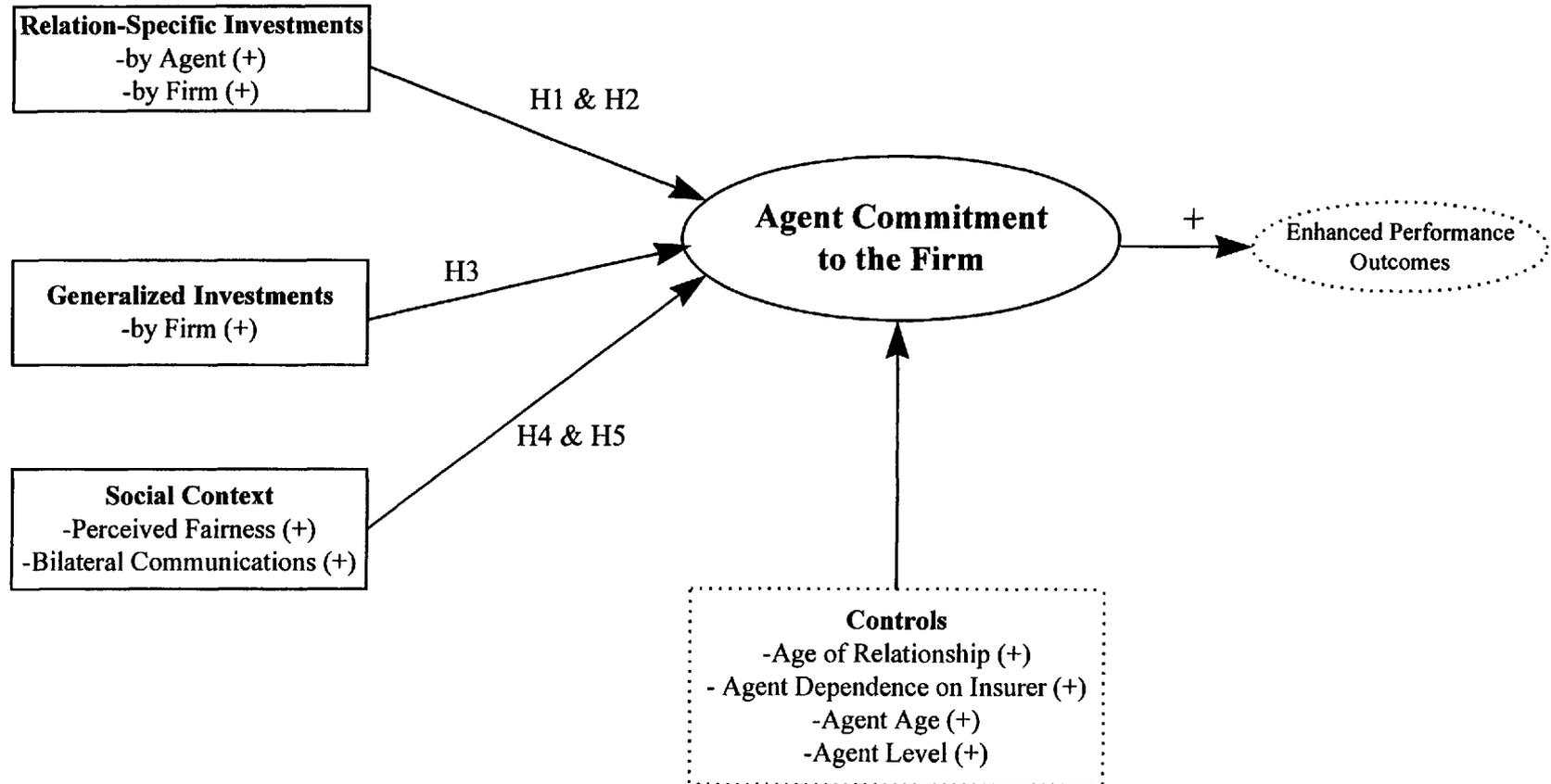
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**FIGURE 1:**  
**Generalized Investments in Human Assets**  
**and their Consequences for Agent Commitment**



**TABLE 1:**  
**Correlation Matrix of Commitment Model Scales**

	A	B	C	D	E	F	G	H	I	J
A	5.34 (1.1)									
B	.409	4.27 (1.42)								
C	.322	.452	4.51 (1.32)							
D	.555	.514	.389	3.56 (1.35)						
E	.651	.354	.317	.566	4.20 (1.19)					
F	.487	.080	-.036	.295	.407	4.05 (1.36)				
G	.013	.024	.054	.071	.007	-.167	21.3 (17.4)			
H	-.211	-.344	-.215	-.269	-.175	.034	-.014	5.16 (5.63)		
I	.056	.091	.028	-.056	-.051	-.103	.008	-.078	0.84 (0.37)	
J	.170	-.035	-.076	-.004	.113	.107	.143	.009	.227	47.3 (9.6)

A = Agent commitment to dyad

B = Agent's idiosyncratic investments in insurer

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

D = Insurer's generalized investments in agent

E = Bilateral communications

F = Trustworthiness of insurer

G = Age of relationship (yrs)

H = Dependence of agent: number of other insurers represented (higher value means less dependence)

I = Position of Agent

J = Age of Agent (yrs)

Diagonal entries: mean (standard deviation)

N = 237

**TABLE 2:**  
**Models Predicting Agent Commitment Levels:**  
**The Effects of Generalized Investments**

Independent Variables	Model 1 (Baseline)	Model 2 (Firm-Specific Investments)	Model 3 (General Investments)
Generalized Investments			.158** (.050)
Relation-Specific Investments (made by Agent)		.134** (.043)	.106* (.044)
Relation-Specific Investments (made by Firm)+		.152** (.042)	.114* (.043)
Bilateral Communication	.506*** (.048)	.406*** (.050)	.351*** (.053)
Fairness	.297*** (.043)	.321*** (.042)	.297*** (.042)
Age of Relationship	.049 (.003)	.040 (.003)	.026 (.003)
Agent Dependence++	-.125** (.009)	-.064† (.009)	-.050 (.009)
Agent Age	.055 (.006)	.085* (.005)	.091* (.005)
Agent Level	.090* (.146)	.068† (.140)	.076* (.139)
Constant	1.88*** (.331)	1.00*** (.368)	1.01*** (.363)
Adj. R <sup>2</sup>	.503	.544	.556
F-Statistic	40.8***	36.2***	33.8***
# of Cases	237	237	237
Partial F-Test		.000***	.000***

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.

++ Higher value indicates *less* dependence.

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**

	<b>Ai</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
<b>Ai</b>	4.35 (1.64)				
<b>B</b>	.38	5.37 (1.09)			
<b>C</b>	.22	.11	1.9x10 <sup>6</sup> (2.7x10 <sup>6</sup> )		
<b>D</b>	.33	.28	.32	.35 (.31)	
<b>E</b>	.33	.19	.11	.02	3.69 (1.44)

*Ai = 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.

**II) Insurer Future Expectations**

	<b>Aii</b>
<b>Aii</b>	4.79 (1.34)
<b>B</b>	.32
<b>C</b>	.16
<b>D</b>	.17
<b>E</b>	.37

*Aii = Insurer expectations of future benefits*

*B-E= As above*

Scale of insurer expectations of benefits (alpha = .83)

- 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 Insurer Satisfaction with and Expectations of Future Benefits form Agent:**

Independent Variables	Insurer Satisfaction		Insurer Expectations of Future 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***
Adj. R <sup>2</sup>	.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 ≤ .10 (all one-tailed tests)

\* p ≤ .05

\*\* p ≤ .01

\*\*\* p ≤ .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 reverse-worded 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

**Firm-Specific 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.

## APPENDIX 1 (CONT.)

### **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. (R)
- 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 Trustworthiness**

- 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