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The Relationship between Reward Policies and Psychological Contract Maintenance:

The Case of African Union Commission (AUC)

A Thesis Submitted to Addis Ababa University School of Commerce in Partial Fulfillment of the Requirements for the Award of Master of Art Degree in Human Resource Management

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DECLARATION

I Abraham Kebede, declare that this work entitled "**The Relationship between Reward Policies and Psychological Contract Maintenance: The case of African Union Commission"** is the outcome of my own effort and that all source of materials used for the study have been duly acknowledged. I have produced it independently except for the guidance and suggestion of the Research Advisor. This study has not been submitted for any degree in this University or any other University. It is offered for the partial fulfillment of the degree of MA in Human Resource Management.

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Graduate Program

The Relationship between Reward Policies and Psychological Contract Maintenance in the case of African Union Commission

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STATEMENT OF CERTIFICATE

This is to certify that Abraham Kebede has carried out his research work on the topic entitled, "**The Relationship between Reward Policies and Psychological Contract Maintenance: The Case of African Union Commission",** for the partial fulfillment of Masters of Art in Human Resource Management at Addis Ababa University-School of Commerce. This Study is an original work and not submitted earlier for any degree either at this University or any other University.

_____

Advisor: Dr. Worku Mekonnen

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ABSTRACT

In the current competitive business environment, not for profit (NFP) organizations are facing a lot of challenges particularly in updating their reward policies in order to enhance the psychological contract maintenance of their employees. Rewards always play an important role in organization's level of psychological contract as well as growth and performance. This study examines the relationship between reward policies and the corresponding psychological contract level of employees at African Union Commission. A Descriptive research design with survey method is applied in this study. Using stratified random sampling technique 111 participants (employees) of the target institution i.e. African Union Commission (AUC) were selected from the total population of 1743. The expected outcome is aimed at unearthing the need to motivate employees of the AUC, so as to improve their level of psychological contract maintenance. The findings of the research generally reveal that reward has a great deal of impact on psychological contract maintenance of employees and the current trend of reward management is not that of satisfying the expectations of employees. The management of the AUC should have clearly stated and well-articulated reward policy that can be competitive as compared to other best practices in organizations like United Nations and other international organizations.

Key Words: Level of Rewards, Job Evaluation, Equal Pay, Transparency, Line Managers, Psychological Contract Maintenance.

ACRONYMS

AEP	Achieving Equal Pay
AUC	African Union Commission
HR	Human Resources
LOR	Level of Rewards
NFP	Not for Profit
PCM	Psychological Contract Maintenance
UJE	Use of Job Evaluation
RECs	Regional Economic Communities
RLM	Role of Line Managers
TRY	Transparency
UN	United Nations

CHAPTER ONE

1. INTRODUCTION

This chapter introduces the research topic by presenting the background of the study and demonstrating the need for this research. An explanation as to why this research was conducted within the Not for Profitable types of organizations. The research objectives and questions are presented in the context of the conceptual framework and the scope. Limitation, delimitations, justification and definition of terms are also presented in this chapter.

1.1.Background of the Study

Over the years, a considerable amount of literature has been developed, which seeks to improve understanding in rewards policies and the extent to which they can influence the level of psychological contract maintenance. According to Lawler (1971), reward systems are one of the most widely researches and written subjects in the field of management and organizational behavior, yet it remains one of the less understood topics.

Interest in the psychological contract started in 1960 with a publication of Argyris. In the first period (1960-1991) only a small amount of attention was paid to the subject. During the period 1994-2004 psychological contract became frequently a subject of publication, with special issues in 1994 (Human Resource Management), 1998 (Journal of Organizational Behavior) and 2002 (Gedrag and Organisatie). Interestingly, it was not until 1989 with the seminal work of Denise Rousseau that the psychological contract became a popular concept to perform research on. Commonly mentioned is that this rise in attention towards the psychological contract was due to changes in the employment relationship.

Changing nature of the workplace is an important factor to consider in understanding the psychological contact maintenance. The changing nature of the work includes: more part-time and temporary contracts, flexible job descriptions, doing more with less (downsizing), constantly changing service standards, constantly changing technology and changing attitudes about work.

It is argued that Human Resource practices, such as employee resourcing, development, rewards, and relations, influence psychological contracts by shaping employer and employee promises fulfillment (Suazo, 2009). Specifically, employee resourcing, being the beginning of the

employment relationship, transmits the employment terms and conditions of the organization to the potential job applicants (Rynes, 1991). The emphasis the organization is putting on employee training and development usually reflects the view that the organization considers employees as being part of its permanent employment (Gomez-Mejia, Balkin and Cardy, 2004). Each of the components of employee rewards is capable of producing psychological contract by establishing the belief that organization‟s employees worth their long-term salaries (Gomez-Mejia, 2004). Good employee relations produce positive feelings to employees who accordingly keep their promises to organizations (Robinson, 1994).

The central concern of this study is to examine these two crucial issues of the human resource function and to discover their correlation in a particular setting. The main objective is to show whether reward policies influence the levels of psychological contract maintenance among employees of the African Union Commission (AUC). Moreover, the study aims to discover answers to the following subjects: which of the reward policies parameters have the most influential factor on psychological contract maintenance.

1.2.Background of the Organization

The African Union Commission is the Secretariat of the entrusted with executive functions. It is composed of ten (10) Officials: A Chairperson, a Deputy Chairperson; Eight (8) Commissioners and Staff members. The structure represents the Union and protects its interest under the auspices of the Assembly of Heads of State and Government as well as the Executive Committee. The African Union Commission is made up of Portfolios. They are: Peace and Security; Political Affairs; Trade and Industry; Infrastructure and Energy; Social Affairs; Rural Economy and Agriculture; Human Resources, Science and Technology; and Economic Affairs. As of January 2014, the Commission had more than two thousand staffs including those at Headquarters and regional offices (About Us: African Union Commission)

The mission of the Commission is become “An efficient and value-adding institution driving the African integration and development process in close collaboration with African Union Member States, the Regional Economic Communities (RECs) and African citizens”.

The values to guide and govern the functioning and operations of the Commission are: Respect for diversity and team work; Think Africa above all; Transparency and accountability; Integrity and impartiality; Efficiency and professionalism; and Information and knowledge sharing.

The Commission endeavors to fulfill its Mission by developing clear goals and strategies. The values indicated above constitutes the basis on which the AUC will achieve its Mission. They will also encourage the development of a service culture for the entire organization.

The Commission is guided by the following principles:

- Subsidiarity and complementarity with other Organs, Member States and RECs;
- Results orientation, feasibility and impact focus;
- Close coordination and cooperation with the RECs;
- Coherence of policies and programmes; and
- A networking approach that takes advantage of available resources through other players.

Guided by these values and principles, the Commission endeavors to achieve its Mission through implementation of clear goals and strategies and by committing the requisite resources for effective discharge of its mandate. This would require the AUC presenting specific proposals to give full effect to its texts, and bring new possibilities and benefits to the citizens of Africa.

1.3.Statement of the Problem

A major function of HR practices is to cultivate a positive psychological contract that will lead to improved organizational performance (Pate, 2003; Suazo, 2009). This means that HR practices produce positive psychological contracts, reflected in the positive attitudinal reactions with respect to organizational commitment (Rousseau, 1990; Robinson and Rousseau, 1994; Robinson, 1994; Lemire & Rouillard, 2005), work satisfaction (Sutton and Griffin, 2004), and motivation (Lester, Claire, and Kickull, 2001), which consequently will improve organizational performance.

Consequently, HR practices are likely to influence psychological contracts. This is because the appropriate use of HR practices will create a positive organizational environment that will influence the degree of employer and employee promises fulfillment (Marchington, 2001; Purcell, Kinnie andHutchinson, 2003; Suazo, 2009). Thus, HR practices determine the status of

psychological contracts by shaping the day-to-day behaviors of the members in an organization (Rousseau, 1995).

Thus one of the HR practice is developing a reward system. According to (Armstrong, 2007), the elements of a reward system include business strategy of the organization, the reward strategy/policy, and the total reward system. Reward policy covers such matters as level of pay, achieving equal pay, approaches to contingent pay, and the use of job evaluation at workplace, market surveys, and flexing benefits.

In today‟s changing environment, organizations need to revise their reward strategy and policies in order to cope up with the changing nature of the workplace. Thus timely revision of such policies and guidelines enhance the psychological contract between the employee and the employer, and lead to long term relationship maintenance.

In Not for Profit (NFP) organizations like the African Union Commission, the dynamic work environment enhance the improvement of reward polices and guidelines due to the diversity of employees respect to multicultural environment, workforce diversity and various types of employment contract. But in practice, the reward policies are revised back to 2009, which is almost now seven years. If the experience of United Nations (UN) is considered, the organization revised all its HR practices every two year to accommodate the dynamic environment and changing arena of the reward policies (Source: UN HRM Report: 2014).

So, due to the status of the reward policy, employees look for other packages in similar organizations and there is an employee turnover increased by twenty percent as compared to the data before 2009.Thus, the new employees of the Commission as well as the existing staffs of the Commission need more from the reward policy in such a way that it constitutes all the international HR practices and reward polices in such similar organizations worldwide. In addition, the psychological contract between the employees and the employer is at stake due to the question on the level of the reward policies in the international arena of similar organizations like the United Nations, which is considered as a pioneer organization that has a seventy year vast experience worldwide.

1.4.Research Question

Based on the statement of the problem and some preliminary literature review, the study has tried to answer the following research question:

1.4.1. General Question

"**What is the relationship between reward policies and psychological contract maintenance?"**

1.4.2. Sub Questions

- What is the psychological contract fulfillment level of employees with regard to the current reward policy of the commission?
- Is there significant relationship between the reward policy measurements (level of reward, use of job evaluation, achieving equal pay, role of line managers and transparency) and the psychological contract level at employee level?

1.5.Objective of the Study

1.5.1. General Objective

The main objective of this paper is to examine the relationship between reward policies and psychological contract maintenance.

1.5.2. Specific Objective (s)

The specific objectives of this research include:

i. To assess the effect of level of reward, use of job evaluation, achieving equal pay, role of line managers and transparency on psychological contract maintenance;
ii. To assess which of the reward policy measures contribute the most on maintaining psychological contract;

1.6.Significance of the study

The research paper has practical significance to the existing body of knowledge in the Ethiopian context;

- To tackle problems associated with rewards and psychological contract maintenance.

- To have good understanding on the relationship between rewards and psychological contract maintenance and to empirically inform decision makers and other concerned about the existing problem.
- To help the management in designing effective reward policies that effectively motivate the level of psychological contract maintenance of the employees and make them committed to the organization;
- Contribute to the existing body of knowledge by addition a literature on the reward policies and psychological contract maintenance of employees in the Not for Profitable type of organizations in Ethiopian context.

Thus, the researcher believes in such a way that, this study is a breakthrough for academicians and the human resource management practitioners to make further studies and analysis; thus it is used as source of reference. Also, it gives a better understanding for HR Officers in African Union Commission for future revision of their reward policies and guidelines to enhance the effective psychological contract maintenance; and also for better reward strategy in a multicultural and multiversity work environment.

1.7.Delimitation of the Study

The study under consideration is limited on identifying the effect existing reward policies on psychological contract maintenance and examines the existing trend of African Union Commission.

Although, the study would have been more comprehensive if other human resource variables that have impact on psychological contract maintenance would have been addressed, the scope of the study is limited to one of the human resource functions i.e. reward systems and in particular regarding reward policies.

The study is focusing only in quantitative approach and the sampling is based on General Service and Professional categories of employees within the commission.

1.8.Limitations of the Study

The limitations of this study includes respondents might be suspicious and show some reservations to communicate regarding the relevance of the study, full attention towards

responding to the questions under study, reservation from the management in sharing confidential information that contains a valuable content towards the study, and missing to address all reward policy variables on psychological contract maintenance.

To conduct this study there was many challenges that affect the quality of the paper and hinder the progress of the research. Such as:

- Lack of prior experience in conducting systematized research. But it is handled by referring to similar researches in the area of reward policies.
- Missing to address all Reward variables that have impact on psychological contract maintenance, which may have some impact on the outcome of the study as the dependent variable is subject to other reward variables considerations as well.
- Secondary data may not be expressive enough to convey information on employee psychological contract maintenance.

1.9.Organization of the Paper

Chapter one explains the issue that is discussed in this study. It also highlights the background of the research, back ground of the organization, statement of the problem, research objective, research question, and significance of the study, scope of the study and organization of the study.

Chapter two provides review of the most important concepts regarding psychological contract and reward policies; and the major characteristics of reward policy: level of reward, use of job evaluation, achieving equal pay, role of line managers and transparency. It further provides an insight into these concepts by focusing on previous research in this area and presents reviewed literature relevant to this study.

Chapter three describes the research design utilized. Specifically, the chapter describes research design, target population, sampling techniques and sample size determination, the measuring instrument used, the procedure followed to gather data, and the statistical techniques used to analyze the data and finally, ethical consideration that should be taken into account.

Chapter four reports the results of the empirical analysis. The chapter proceeds with an analysis of the descriptive statistics on the variable under consideration.

Chapter five describes the result of the study in greater detail and where appropriate, existing literature will be integrated in to the discussion, the limitation of the study is addressed and the limitations of the study and the implications for future research are addressed and the chapter concluded with recommendation.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

A large contextual body of literature further supports and paves a way that a sound reward policy practice contributes a great deal to correlate with psychological contract maintenance of employees in an organization. This chapter reviews both theoretical and empirical literature by various scholars on the relationship between reward policies and psychological contract maintenance of employees in organizational context.

In addition, it covers the concept of reward management, reward system, reward strategy, reward policies, characteristics of reward policies, psychological contract, satisfaction, factors that explain variation of psychological contract maintenance. In pertinent with the study, the researcher further investigates the relationship between reward policies and psychological contract maintenance.

2.1.Defining the Psychological Contract

Psychological contract is an individual‟s implicit belief in mutual obligations (expectations) between that person and another party (Rousseau, 1989) and based on employees‟ and employers‟ perceptions of obligations. In addition it is unspoken and continually shifting in Human Resource Development paradigm. Fulfilling psychological contracts is associated with increased trust and cooperation (e.g., Conway & Briner, 2002) while violating psychological contracts is associated with increased anger, frustration, and intentions to quit (Robinson & Rousseau, 1994).

Employment contract is one of the tools that bind a certain individual with the organization him / her works for, and in return regulates one‟s behavior and making possible for the achievement of the intended organizational goals (Robinson, 1994). It also aims at connecting the employee with the employer or organization with regard to future contributions and encouragements of the parties involved in the contract. These contributions and encouragements are partly put on paper in the written formal contract of employment, but are for the most part unwritten and implicitly held.

Spindlier (1994) argues that "*in law, contracts create and define enforceable rights and obligations between parties who knowingly create the relationship*". Legal and psychological contracts are both important aspects of the employment relationship. The difference between legal and psychological contracts is that legal contracts are specified, explicitly defined, in contrast to psychological contracts, which are unwritten, are held individually and which are perceptual in nature.

The psychological contract is nowadays a well-known concept for most researchers in the fields of Organizational Behavior and Human Resource Management. During the past years a relatively high amount of attention has been given to the concept of the psychological contract, with a surge of attention in the 1990"s.

2.2.Psychological Contract Concept Development

Two studies can be seen as the founding "fathers" of the psychological contract concept: the work of Argyris (1960) and the work of Levinson (1962). Argyris (1960) first introduced the term psychological contract. In describing the relationship between employees and the leadership style of their foremen, he pointed at the informal culture as the important factor in the understanding of the agreement between the employees and their foremen, i.e. the psychological contract.

According to Argyris (1960), the management of the employee-foreman relationship was "dominated" by the psychological contract. He defined violation of this psychological contract as the result of a situation in which the foreman behaved in contrast with the cultural norms. Argyris (1960) described the psychological contract as the perceptions by two parties of their employment relationship and as a mutual understanding on the content of these perceptions or the psychological contract.

Levinson et al. (1962) described the psychological contract as a series of mutual expectations between the organization and the employee, some of which are conscious and other unconsciously held. Levinson et al. (1962) focused at expectations having to do with psychological needs, such as growth and aggression and expectations having to do with specific aspects of the work itself, such as job security and rewards.

Both definitions assume an exchange relationship between employer (organization and/or leader) and employee, in which the expectations of both parties involved are taken into consideration.

Rousseau (1989) introduced a definition of the psychological contract from the individual‟s point of view: “An individual's belief regarding the terms and conditions of a reciprocal exchange agreement between the focal person and another party (typically between employee and employer)”. Rousseau breaks with the work of Levinson et al. (1962) and Argyris (1960), by shifting to the individual level (instead of the relational level).

In 1990 Rousseau published an article called „new hire perceptions of their own and their employer's obligations: A study of psychological contracts‟. In this article she formulated the following definition of psychological contract: “an individual‟s beliefs regarding reciprocal obligations”.

Rousseau‟s (1989/1990) definitions take into account the fact that both parties do not necessarily have to agree with regard to the terms of the psychological contract, in contrast to Argyris‟ (1960) „mutual understanding‟. Instead, Rousseau considers mutuality as perceived by individual employees. Furthermore, she focuses on the conscious beliefs by employees, where Levinson et al. (1962) also consider unconscious expectations.

In 1995 Rousseau formulated the following definition of psychological contract: “individual beliefs, shaped by the organization, regarding the terms of an exchange agreement between individuals and their organizations”. This definition differs from the one formulated by Rousseau in 1989 and 1990, in that although the words „individual beliefs‟ are still present in the definition, they are extended by using the new fragment „shaped by the organization‟. This could be an indication for more emphasis on the elements that shape a psychological contract, and a narrowing of the interest towards only these elements that are manageable by an organization. Hereby she excludes the influence of personal characteristics and the (social) background of these individuals. All these Rousseau‟s definitions, however, imply that she sees the psychological contract as a construct at the individual level.

In contemporary literature roughly two schools can be distinguished. On the one hand the „Rousseau-school‟ (with authors like Rousseau, Robinson, Morrison, McLean Parks, Kraatz, Greller, Guzzo, Noonan, Lewis-McClear & Taylor, Schalk), which mainly focuses on the

individual employee, and, on the other hand, the „traditional school" that focuses on both sides, the employer and the employee (e.g. Guest, Herriot, Pemberton, Coyle-Shapiro, Manning, Kidd).

At present there is only a relatively small group of researchers that actually examine the employers" side of the psychological contract in terms of the traditional-school definition of the concept (e.g. Coyle-Shapiro & Kessler, 2000; Guest & Conway, 2002; Coyle-Shapiro, 2001).

So a lot of debate in this field is due to the divergent use of definitions of the psychological contract. The most frequently used definitions are the definitions of Rousseau (1989/1990/1995). According to Rousseau (1989) individuals can have psychological contracts and organizations cannot: organizations provide the context in which individuals create psychological contracts. In order to be able to conceptually distinguish between the psychological contract on individual level and organizational level variables influencing this concept (which could be seen as the employer"s perspective), we will study the psychological contract in line with the conceptualizations of Rousseau. So, this definition is taken in this paper.

2.3.Antecedents of Psychological Contract

The antecedents of Psychological Contract (PC) are broadly classified as individual level antecedents and organizational level antecedents which influence the formation of PC. The essence of psychological contract is based upon the idiosyncratic belief (Rousseau, 1989). Therefore, antecedent to PC becomes very critical and they are:

2.3.1. Individual Level Antecedents

Age

Research demonstrates that as people grow they experience significant change in their self-concepts, emotional intensities, interaction patterns, attitudes and behaviors, life goals, and coping strategies (Chapman & Hayslip, 2006; Heckhausen & Brim, 1997; Lebouvie-Vief & De Voe, 1991; Steverink & Lindenberg, 2006; Underwood & Moore, 1982).

Older and younger employees hold varying expectations and react differently to PC (Chapman & Hayslip, 2006; Flaherty & Pappas, 2002; Thomas & Hasher, 2006; Naus, van Iterson, & Roe, 2007; Bal, Lange, Jansen, & Velde, 2013).

Younger and older employees prefer different degree of balance in their PC (Vantilborgh , 2013). Ng and Feldman (2009), argue that age independently does not shape how individuals experience PC breach. Factors like age similarity and age relativity influence the relationship between age and PC. In a recent study age was studied from generation aspect. It was found out that younger generation prefer development opportunities, challenge, variation, and responsibility whereas generation X prefer high value on work-life balance, autonomy, and job security (Lub, Bijvank, Bal, Blomme, & Schalk, 2012).

Gender

Males and females have different expectations from the employer. Gender is negatively related with both obligations to confirm and contribute (Flood, Turner, Ramamoorthy, & Pearson, 2001). Females score low on PC (Thompson & Heron, 2005). Females have stronger obligation attitudes than males (Tallman & Bruning, 2008). It is attributed to the past unfair treatment received from employer (Reskin & Padavic, 1994). A study reported positive correlation between gender and employee-employer fulfillment of obligation (Coyle-Shapiro & Kessler, 2002).There is a positive correlation between females and PCF. It is also assumed that females due to pre entry socialization limit their expectation from the employer (Sturges, Conway, Guest, & Liefooghe, 2005).

Similarly, other studies also report positive correlation between gender and PC (Dulac, Coyle-Shapiro, Henderson, & Wayne, 2008). De Vos, Buyens and Schalk (2005) found positive correlation between gender and economic rewards, information seeking behavior, and social atmosphere. Contrary to this, there is also evidence for a negative correlation between gender and PCV (Lemire & Rouillard, 2005).

There are few studies which found no significant relationship between gender and PC (Coyle-Shapiro & Conway, 2005; Suazo, 2009; Sutton & Griffin, 2004). In most of studies gender is treated as control variable (Kiewitz, Restubog, Zagenczyk, & Hochwarter, 2009; Bal & Smit, 2012; Lo & Aryee, 2003; Coyle-Shapiro & Conway, 2005). Why PC differs between males and females? Is it that females are gendered? If yes, are they gendered globally? The mentioned studies are conducted on UK and US sample? What would be scenario of PC of among countries

where patriarchal social system is dominant? There is need to conduct studies around these aspects.

Tenure

Legal contract determines the boundaries of exchange relationships and therefore influence the PC (Rousseau, 1995). It influences how employees perceive employer obligations (Van Dyne & Ang, 1998).

There exist broad arrays of obligations for permanent employees. Obligations are limited in both scope and content for temporary employees. Temporary and permanent employees perceive PC differently (Chambel & Castanheira, 2007). Temporary employees have transactional PC while permanent employees have relational PC (Millward & Hopkins, 1998). Permanent employees have more number of inducements and obligations than temporary employees (Coyle-Shapiro & Kessler, 2002). Also, permanent employees report positive PC (Coyle-Shapiro & Kessler, 2002). Permanent employees exhibit relational forms of attachment to the organization while reactions from forced temporary employees are more varied (Saunders & Thornhill, 2006). PC and HR politics differ between temporary and permanent employees causing variation in PC (Burgess & Connell, 2006). Jong, Schalk, Cuyper (2009), found partial support for the argument that permanent workers are more likely to perceive the promised PC as a mutual high obligation or an employer over-obligation, compared to temporary workers.

Some studies did not find any significant difference between the two groups (De Witte & Naswall, 2003; Feather & Rauter, 2004). Generally, permanent employees react strongly than temporary employees to perceived inequality. Research in this area is inconclusive since a host of factors influences dynamics between tenure and PC. It was long believed that temporary employees experience greater PCB due to limited scope of their PC. Later research argued that those employees who prefer to be a temporary employee over permanent employee might not experience PCB (Ellingson, Gruys, & Sackett, 1998).

Personality

Personality influences the way a person perceives and interprets the world. Raja, Johns, and Ntalianis (2004), suggest that agreeable people establish relational contracts. Extroversion relates positively to relational contracts and negatively to transactional contracts. Neuroticism correlates positively with transactional contracts but negatively to relational contracts. Employees high on

neuroticism focus on short-term relationships with employers. Employees high on openness to experience report low PC (Ng & Feldman, 2009). Employees high on equity sensitivity and external locus of control tend to form transactional contract whereas employees with internal locus of control tend to form relational contract (Zhao & Chen, 2008).

Shih & Chuang (2012) tested two competing theories. Self-enhancement theory which predicts that self-esteem and equity sensitivity increases the perception of PCB and self-consistency theory predicts that self-esteem and equity sensitivity attenuates the perception of PCB. Authors found confirmation for self-consistency theory. Personality is not limited to five personality traits and generalization requires caution because personality is dynamic and complex. For example, emotions and actions intervene in the process of attributing responsibility and finding explanations for breach (Parzefall & Coyle-Shapiro, 2011). Also, there is need to examine the personality and PC as an exchange relationship. Further, the relationship between personality and PC is limited to few traits which call for a detailed examination for remaining traits and personality factors.

Work Status/Employee Class

Ellis (2007), found that occupational work-group status affects the degree to which negative violations are perceived (e.g., white-collar employees perceive negative communication violations more than blue-collar employees do), but not work-life issues.

Employee Designation

Employees holding various designations can have varying expectations from an employer. Managerial employees tend to have relational PC (Atkinson & Cuthbert, 2006). The researches identifying the direct connect between designation and employee designation is limited. This paper examines this connect by borrowing arguments from related constructs. There is high correlation between designation and role. Role theory suggests that expectations of the employees are influenced by roles they play (Biddle, 1986). Organizations‟ expectations from employees also vary from designation to designation (Neale & Griffin, 2006). Employees start identifying with their designation and role expectations. Employees seek to implement their self-concepts (role as a manager), which represent their self-identifications and consciousness of how they fit into their social systems (Hartung & Taber, 2008).

For instance, an employee at managerial position with 10 years of experience is likely to have different understanding of contributions and inducements in comparison to a fresher executive. The current research argues that drawing conclusions and generalization about employee designation might be complicated since grading structures vary from organization to organization. However, designations in some industries are similar. Further, this challenge can be dealt by examining gaps in designation of employees. For instance, country head in one organization might be equivalent to partner in other organization.

2.3.2. Organization Level Antecedents

Recruitment and Selection

PC formation begins with recruitment and selection process. If employee and employer expectations match during recruitment and selection stages, a healthy and positive relationship follows. At recruitment and selection stage, expectations dynamics exists rather than a true PC (Rousseau, 1995). It is important for employer to present the image of job and organization accurately.

Most recruiters present the job and organization favorably (Sims, 1994; Freese & Schalk, 1996; Baker, 1985; Hiltrop, 1985; Guzzo, 1994), which employees might later perceive as breach of PC (Morrison & Robinson, 1997). During recruitment, realistic job previews (RJP) shape employee perceptions of exchange agreements and formation of perceptions about the entire organization (Rousseau & Greller, 1994).

Research suggests that RJP enhances employee job and organization adaptations, and reduces gaps between expectations and realities. It allows unsuitable candidates to opt out from the given job, if a job appears to be personally dissatisfying. Secondly, an employee who takes well informed decisions is more likely to remain committed to the organization. Thirdly, it helps an employee to effectively cope up with the expected unpleasant situations rather than unexpected unpleasant situations (Sims, 1994).

During recruitment and selection, an employer assesses potential employee‟s expectations, and provides information about what the organization offers and expects from an employee. If a potential employee does not agree with exchange terms during selection, the person is less likely to join.

Socialization

Thomas and Anderson (1998) examined PC changes through socialization, suggesting information acquisition and changes in newcomer‟s expectations about employer inducement at various stages. Expectations concerning an employer‟s inducements increase during socialization (Rousseau, 2004; Shore & Tetrick, 1994). During socialization, an individual enters into the organization as a newcomer and attempts to make sense of the environment (Tomprou & Nikolaou, 2011). De Vos and Freese (2011) found positive association between information seeking behavior during the initial weeks after entry and evaluations of PC fulfillment after 3 months. However, changes in information seeking behavior after the initial period were not associated with changes in PC fulfillment. A newcomer acquires information in a number of domains related to job and organization (Tekleab, Orvis, & Taylor, 2012).

To understand and assess PC formation, it is necessary to investigate the bidirectional influence between newcomers and employers. Employees contribute by conferring some benefit to an employer. Following exchange theory, this creates an obligation for the employer to reciprocate (Coyle-Shapiro & Kessler, 2000). To create equilibrium, newcomers with a higher perception of their own contributions increase perceptions of what they promised to employer. Newcomers learn about the commitment they show to employers in varying areas such as performance, flexibility, loyalty, and ethical behavior (De Vos, Buyens, & Schalk, 2003). Also, socialization process is negatively related with self-reports of own low performance and PCB (Robinson & Morrison, 2000). Socialization is critical to PC because newcomers are more likely to react to changes (Tekleab et al., 2012). The research clearly suggests that smooth and functional socialization contribute in the development of healthy PC.

Organizational Change

Any kind of change alters the existing relationship and creates a need for new PC (Morrison, 1994). Organization change leads to change in employees‟ attitude, behavior, and PC (Tomprou, Nikolaou, & Vakola, 2012). Change in an organization invites anxiety and uncertainty among employees, creating increased likelihood of misinterpretation and violation of PC (Robinson, 1996; Braun, 1997). Due to the uncertainty, employees become more vigilant. Employees with heightened vigilance are more likely to perceive PCB (Robinson & Morrison, 2000; Khalid & Rehman, 2011). Employee perceptions of both employer obligations and contributions change

after mergers and acquisitions (Bellou, 2007). Organizational change relates positively to PCB (Lo & Aryee, 2003). However, Robinson and Morrison (2000) did not find any support for the relationship between PCB and organizational change. There is a need to examine if all kinds of changes in organization are associated with same intensity of negativity. The author argues that researchers while examining change and PC have ignored the characteristics of change and the context of change. Are positive changes also associated with same kind of anxiety? For instance, being acquired by a firm with good image as an employer or changes beneficial for employees might not have negative implications.

Power and Politics

Keiwitz et al. (2009) studied the effects of social context on PC breach and argued that employee perceptions of organizational politics serves as a heuristic for overall benevolent or malevolent characteristics of the organization and its agents. When employees perceive both PCB and high organizational politics, they are more likely to hold the employer responsible for PCB. The study suggested that power and politics influence PCB. Managers should consider an organization‟s perceived political landscape when anticipating how employees will respond to broken promises. This is the only study which examines politics and PC.

Workplace Familism

Workplace familism refers to familial interpersonal processes in an organization. Employees with high workplace supervisor familism feel betrayed and respond more negatively to PCB (Restubog & Bordia, 2006). Workplace familism affects breach of relational obligations (Restubog & Bordia, 2006). Restubog and Bordia (2006) found partial support for the argument that workplace supervisor familism moderates the relationship between PCB and civic virtue behaviors. Also, feelings of violation and workplace familism influence the relationship between PCB and organizational deviance (Restubog, Zagenczyk, Bordia, & Tang, 2013).

Leadership

The relationship between leadership and PC is studied primarily in the contexts of various leadership styles and leader-member exchange (LMX). Transformational leadership is associated with relational components of PC because the relationship between leader and subordinates is based primarily on strong affect. Transactional leadership is related to transactional PC, where

employees feel a minimum level of emotional attachment to the organization (Bass & Riggio, 2006; Waldman, Sully, Washburn, & House, 2006).

It is also argued in the literature that transactional leaders provide clarity about organizational expectations, values, and goals (Turner, Hogg, Oakes, Reicher, & Wetherell, 1987). Similarly, transformational leader on the other hand fosters trust and open communication. This kind of atmosphere allows employees to discuss the possible discrepancies and actual PC fulfillment in constructive manner (Epitropaki, 2013). In a way, possibility of both transformational and transactional leadership association with healthy PC cannot be ruled out. Therefore, we can say further research is required to be conclusive about the relationship between leadership styles and PC. There is also need to examine PC in context to other leadership styles.

LMX relates negatively to PCB, and leader benevolence moderates the influence of PCB on mentoring (Chen, Tsui, & Zhong, 2008). Employee perceptions of PCB partially mediate the relationship between LMX and turnover intentions, but not for affective commitment and trust (Dulac et al., 2008). Tekleab and Taylor (2003) found partial support for the argument that quality of LMX between manager and employee relates positively to agreements on employee obligations to the organization and organizational obligations to the employee. Employees who share high-quality relationships with leaders react strongly to PCB (Restubog, Bordia, Tang, & Krebs, 2010). There is consensus among researchers regarding relationship between PC and LMX with little variation in the results.

Justice

Perceived justice predicts PCB (Arshada & Sparrow, 2010; Kickul, Lester, & Finkl, 2002), and if an employee perceives an employer is responsible for unfair treatment, the breach has a compounding effect (Robinson & Morrison, 2000). Procedural and interactional justices moderate the relationship between PCB and commitment (Thompson & Heron, 2005). Procedural justice affects responses to PCB of extrinsic outcomes (e.g., pay), while interactional justice affects intrinsic outcomes (e.g., autonomy) (Kickul et al., 2002). Thompson and Heron (2005) did not find support for the argument that procedural and distributive justices act as substitutes in the relationship between PC and commitment. An employee‟s perceived obligations to an employer correlate positively with perceptions of organizational justice

(Battisti, Fraccaroli, Fasol, & Depolo, 2007).There is largely an agreement among researchers regarding the positive relationship between justice and PC.

Trust

Trust is a key characteristic of long-term relational PC (Atkinson, 2007) with the potential to influence work-based experiences (Dirks & Ferrain, 2001, 2002; Kramer, Brewer, & Hanna, 1996; Rousseau, Sitkin, Burt, & Cramerer, 1998). Trust in an employer mediates the relationship between PCB and employee civic virtue behaviors and task performance, but only partially mediates the relationship with turnover intentions (Robinson, 1996). Trust is positively related with relational PC (Grimmer & Oddy, 2007). PC violation by a former employer relates negatively to trust in a new employer (Pugh, Skarlicki, & Passell, 2003).

Trust in an employer mediates the relationship between PCB and work outcomes such as psychological withdrawal behavior and civic virtue, but partially mediates the PCB-turnover intentions relationship. PCB is positively related to mistrust (Zhao, Wayne, Glibkowski, & Bravo, 2007). The challenge in the examination of relationship between trust and PC is the direction of relationship. Does PCB lead to distrust or vice versa?

Human Resource Practices

Human resource strategy is very critical to healthy PC (Blancero et al., 2007) and primary function of HR practices is to cultivate a positive PC (Pate, Martin, & McGoldrick, 2003; Suazo, 2009). HR functions support employee-employer relationship. HR policies and practices influence the PC (Guest, 2004).

Human resources practices in an organization provide an important link between employee and employer PC. Healthy HR practices reduce PCB irrespective of employees‟ individual characteristics (Sonnenberg, Koene, & Paauwe, 2011). HRM in the form of training and development (Robinson & Rousseau, 1994; Sims, 1994; Lester & Kickul, 2001), performance appraisals (Rousseau & Greller, 1994; Lester & Kickul, 2001; Truss, Gratton, Hope-Hailey, McGovern, & Stiles,1997; King, 2000; Boswell & Boudreau, 2000), compensation (Rousseau & Ho, 2000; Rousseau, 1990; Robinson, 1996), and rewards (Lucero & Allen, 1994; Gerhart & Milkovich, 1992) are all linked with PC.

There is a positive relationship between lifelong learning programme and contents of PC (Martin, Pate, & McGoldrick, 1999). However, there is a need to be very vigilant about the effects of HRD interventions on PC. For instance, it is likely that HRD interventions raise "unrealistic" expectations, leading to possible breach of the PC (D'Annunzio-Green & Francis, 2005). A growing body of research focuses on collections of HRM practices, commonly referred to as high performance work systems. A perception of violations is strong among employees who perceived low investments in high performance work systems (Braekkan, 2012).

In a research it was found out that developmental HRM universally relate to employee outcomes by rebalancing the PC between the employee and organization into a less transactional to a more relational contract (Bal et al., 2013). Developmental HR configurations shape relational and balanced PC. Developmental HR configurations positively influence relational and balanced PC and negatively influence transactional PC (Chien & Lin, 2013). Perception of HR policies fairness is very critical for PC (Stiles, et al., 1997). The performance assessment fairness is positively associated with PC (Yeh, 2012). Number of HRM practices is positively associated with PC (Sonnenberg, Koene, & Paauwe, 2011). On the basis of the literature, we can say that HR practices play a fundamental role in formation of the healthy PC.

Perceived Organizational Support

Perceived organizational support (POS) is positively associated with PC (Keiwitz et al., 2009; Suazo, 2009; Suazo & Turnley, 2010, Dulac et al., 2008; Zagenczyk et al., 2011). Eisenberger, Armeli, Rexwinkel, Lynch, and Rhodes (2001) found a positive relationship between POS and employee obligation to care about the organization and help it achieve goals. Inducements explain the effects of PC fulfillment on POS, but POS was not found to be a predictor of PC fulfillment. POS is negatively correlated with employee perceptions of an organization"s obligations to them (Coyle-Shapiro & Conway, 2005).

A review of organizational support theory suggests that POS creates broader obligations among employees to reciprocate favorable treatment by helping an employer at their own discretion (Eisenberger et al., 2001). The relationship between POS and PC is stronger when fulfillment is discretionary rather than something an organization is obligated to provide or has little control over (Aselage & Eisenberger, 2003). POS increases acceptance of organizationally imposed contract changes, and therefore reduces contract violations (Aselage & Eisenberger, 2003).

Guerrero and Herrbach (2008), argue that POS is the key attitudinal mindset that reflects how individuals experience PC fulfillment. The review clearly suggests a positive relationship between POS and PC.

Communication

PC is highly perceptual and there might be differences in the understanding of the same PC between employer and employee. In such situations, communication plays a critical role. Communication minimizes PCB by reducing incongruence between employee and employer (Morrison & Robinson, 1997). Communication of PC to employees is very critical during recruitment process (Robinson & Morrison, 2000).

Few studies highlighted the significance of ongoing interaction between the employer and the employee about obligations and inducements (e.g., Herriot & Pemberton; 1997; Stiles et al., 1997). The more employee and employer representatives interact with clarity, the fewer the misperceptions over implicit and explicit aspects of PC (Morrison & Robinson, 1997). Consequently, employees are less likely to perceive PCB. Overall, effective organizational communication leads to a more explicit and potentially more effective PC (Turnley & Feldman, 1999).

Further, managers are less likely to report reduced PCB when employees and employers interact regularly with each other. The relationship between communication and PC vary with methods of communication used. For instance, job related and recruitment based communication share consistent positive association with contract explicitness, low PCB, fairer exchange, and management perceptions of the impact of the PC on employee-related outcomes. Top-down communication is less consistently associated with PC (Guest & Conway, 2002). More communication does not necessarily imply more realistic information or accurate perceptions.

Therefore, communication must be realistic. Research on newcomer sense-making suggests that an individual who obtains clear information has a better chance of making accurate sense of his/her surroundings (Miller & Jablin, 1991; Reichers, Wanous, & Austin, 1997). Despite theoretical support for the relationship between communication and PC, there is a dearth of empirical research on these topics due to the complexities associated with measurement.

2.4.What is Rewards Management?

Cascio (2003) defined reward as, "*Reward includes direct cash payments, indirect payments in the form of employee benefits and incentives to motivate employees to strive for higher levels of productivity."*

According to reward management scholars, reward management is all about the development, implementation, maintenance, communication and evaluation of the reward process (Armstrong & Murlis, 2005). The processes deal with the assessment of relative job values, the design and management of pay structures, performance management, paying for performance, competence or skill (contingent pay), the provision of employee benefits and pensions, and the management of reward procedures. It also dealt with the strategies, policies and processes required to ensure that the contribution of people to the organization is recognized by both financial and non-financial means. It is about the design, implementation and maintenance of reward systems (reward processes, practices and procedures), which aim to meet the needs of both the organization and its stakeholders.

Reward management, also known as wage and salary administration, remuneration management, compensation management, is concerned with designing and implementing total compensation package. The traditional concept of wage and salary administration emphasized on only determination of wage and salary structures in organizational settings.

At the moment, many more forms of compensation entered the business field which necessitated to take wage and salary administration in comprehensive way with a suitable change in its structure (Beach, 1975) as cited by Henderson (1984). Reward management is not just about pay and employee benefits. It is equally concerned with non-financial rewards such as recognition, job security, equal reward, learning and development opportunities and increased job responsibility.

In today's highly competitive business environment win-win relationship is important that forms the right treatment of employees by the organizations. Lawler (1990) stated that in order to treat the employees of the organization right, rewarding them properly is one of the important components.

Rewarding for good performance encourages employees to continue their performance and improve their skills and knowledge day by day to contribute positively towards organization and promote employees‟ job satisfaction. An organization that grows healthier is supposed to provide its employees the opportunity to grow and prosper.

2.4.1. Objective of Reward Management

The basic objective of reward management can be briefly termed as meeting the needs of both employees and the organization. Since both these needs emerge from different sources, often, there is a conflict between the two. This conflict can be understood by agency theory which explains the relationship between employees and employers (Osterloh & Frey, 2000). The theory suggests that employers and employees are two main stakeholders in a business unit, the former assuming the role of principals and the latter assuming the role of agents.

The aims of reward management according to Armstrong (2010) are to:

a) Reward people according to the value they create;
b) Align reward practices with business goals and with employee values and needs;
c) Reward the right things to convey the right message about what is important in terms of behaviors and outcomes;
d) Help to attract and retain the high-quality people the organization needs;
e) Motivate people and obtain their engagement and commitment;
f) Develop a high-performance culture;
g) Support the achievement of business goals through high performance;
h) Develop and support organization‟s culture;
i) Define what is important in terms of behaviors and outcomes;
j) Reward people according to what the organizations values;
k) Win the engagement of people.

2.4.2. Rewards Systems

Throughout the management literature, practitioners as well as theorists have underlined the importance of rewards systems. Rewards management is considered to be probably the most rapidly developing area of human resource management.

In order to conceptualize the rewards systems, it is necessary to commence from the Harvard Model of human resource management, which emanates from the Harvard Business School (Sparrow & Hiltrop, 1994) as cited by Ekaterini, Georgios, Ioannis and Vasilopoulos, (2010). This model is called "Soft Variant" because it emphasizes in the human aspect of human resource management.

According to Beeral (1984) as cited in Ekaterini, Georgios, Ioannis and Vasilopoulos, (2010), the model comprises of four key policies: rewards systems, designed to attract, retain and motivate employees; human resource flow, akin to the human resource development set of policies; employee involvement in decision-making, and work systems, designed in order to produce the best outcomes.

It is, therefore, obvious that rewards systems are a fundamental function of human resource management as they deal with the assessment of job values, the design and management of payments, performance management, contingent pay, employees‟ benefits and pensions and the management of rewards procedures. Furthermore, reward policies should take into account organizational goals, values and strategies (Armstrong & Murlis, 1998).

Another important point that Armstrong and Murlis (1998) mentioned that rewards systems also include the development of organizational cultures as they are led by organizational requirements and can increase the motivation and commitment of employees as their philosophy must recognize the vital role of the workforce and also respect their needs.

2.4.3. Reward Philosophy

The reward philosophy advocates that if human resource management (HRM) is about investing in human capital from which a reasonable return is required, then, it is proper to reward people differentially according to their contribution (Armstrong, 2007). The philosophy of reward management also recognizes that it must be strategic in the sense that it addresses longer-term issues relating to how people should be valued for what they do and what they achieve. Reward strategies and the processes that are required to implement them have to flow from the business strategy.

According to Milkovich, New Man and Ratham (2009), reward strategy should be assessed from the aspect of its objective, alignment with the business strategy, competitiveness both internally and externally, its Contribution, and transparency and openness.

As Beer (1984) commented: "The design and management of reward systems constitute one of the most difficult tasks for the general manager. Of all the policy areas in human resource management, this is where we find the greatest contradiction between the promise of theory and the reality of implementation". As previously mentioned, rewards systems and job satisfaction are very closely related in theory and in practice and therefore they are crucial issues not only for the practitioners, but also for the academics.

2.4.3.1. The New Pay Philosophy

There is no doubt that in recent years organizations have witnessed intensified changes in global and local markets. There is competition in international markets, mobility of capital, technological innovations and changes in the employment relations patterns. In their search for competitive advantage in the current era, firms have adopted new high performance work systems (Whitfield & Poole, 1997). Based on that concept and within the late literature, there are linkages of rewards with the overall strategy. Here lies the first debate among academics and practitioners about the approach towards rewards management.

Mac Duffie (1995) investigates the need for congruency between the organizational strategy and the human resource strategy. Additionally, Armstrong and Murlis (1998) like Poole and Jenkins (1996) underline the need for a more strategic approach to payments and rewards in the context of a "new pay philosophy". The "new pay" concept was originally formulated by Lawler (1995) who emphasized that it is necessary to think and act strategically about rewards. In order to do that, organizational objectives and policies should be sharply and clearly defined and measured so that the design of a rewards system will be consistent to those objectives.

An opposite standpoint was expressed by Smith (1992) who argues that the new payment schemes have been created in order to meet the current needs of the organizations for short-term recruitment and retention problems, cost-cutting pressures and other issues that have come along with the highly competitive international markets. He also mentioned that in fact, the rewards systems have not gone into any fundamental change and they remain close to traditional

payments systems. This is because managers do not support the notion of the "strategic approaches" to human resource functions but they "muddle through". Thus, there is an emphasis in the gap between the rhetoric and the reality, not only by Smith (1992). In his research (1998) they identified a substantial endorsement of "new pay philosophy" but they did not notice any actual reward practiced based upon this new philosophy.

2.4.3.2. Best-Practice versus Best-Fit

A second debate investigates the dilemma of best-practice versus best-fit. In the case of best-practice, the adherents believe that it is possible to identify approaches which can be globally applicable and have universal value in organizations‟ endeavors to achieve competitive advantage. The best-fit or contingency school deals with each organization separately, as it stress the significance of strategic alignment of human resource policies to fit to the organizations‟ goals, and business objectives (Thorpe & Homan, 2000).

Furthermore, Legge (1995) describes the previous dilemma as the hard and soft approach to human resource management. Within many researches there are noteworthy conclusions for both practices. Some support that a best – practice approach is likely to lead to improved performance (Guest, 1987) and some others believe more contingent approaches are best to choose (Lawler, 1990). Lawler re-defines the "new pay" by saying that the implementation of new reward practices does not mean abandoning traditional ones but there should be a set of new ways of thinking about a more strategic role of rewards systems in a complex organization

2.4.4. Reward Strategy

As suggested by Armstrong (2006), reward strategy is a "declaration of intent" defining the actions an organization intends to take in the long term to develop and execute reward policies, procedures and practices, which will enable this to achieve its business goals and those of its stakeholders.

As for the formulation of strategies in general, business strategy included, reward strategy aims at providing guidance, direction and a clear path for developing reward policies and practices within an organization. Since reward strategy should aim at helping the organization achieving its overall business strategy, reward strategy formulation needs to take into due consideration the organization needs, values and shared beliefs. Nonetheless, a good and effective reward strategy

also needs to duly take into consideration employees‟ needs and the way these can be satisfied, ultimately balancing the needs of the one with the ones of the others.

Components of an effective reward strategy stated by brown (2001) as cited by Armstrong (2009) have three components as listed below:

i. They have to have clearly defined goals and well-defined link to business objectives.
ii. There have to be a well-designed pay and reward programme, tailored to the needs of the organization and its people, and consistent and integrated with one another.
iii. There need to be an effective and supportive human resource and reward processes in place.

2.4.5. Reward Policies

According to Armstrong and Helen Murlis (2007) reward policies provide guide lines for the implementation of reward strategies and design and management of reward processes. They will be influenced strongly by the guiding principles and reward philosophy of the organization. The reward policy will be concerned with, the level of rewards, the relative importance attached to market rates and equity, attraction and retention of employees , the match between rewards and business performance, total reward policy, the need to communicate reward policies to employees and transparency.

2.4.6. Reward Practices

It consists of the grade and pay structures, techniques such as job evaluation, and schemes such as contingent pay used to implement reward strategy and policy. For example, the policy on pay levels will lead to the practice of collecting and analyzing market rate data, and making pay adjustments that reflect market rate of increase.

2.4.7. Reward Processes

It is a process consists of the ways in which policies are implemented and practices are carried out, for example the way in which the outcomes of surveys are applied and how managers manage the pay adjustment and review process.

2.4.8. Reward Procedures

These are operated in order to maintain the system and to ensure that it operates efficiently and flexibly and provides value for money. For example, a procedure will be used for conducting the annual pay review.

2.5.Components of Reward Policies

One of the organization level antecedents of psychological contract is Human Resource practices. One of the components of human resource practices is reward management. In addition one of the components of a reward system is a reward policy deployed by the organization in addition to reward strategy, reward practices, reward processes and reward procedures.

According to (Armstrong, 2007), reward policies provide guidelines for the implementation of reward strategies and the design and management of reward processes. They will be affected highly by the guiding principles and reward philosophy of the organization. So, according to (Armstrong, 2007) deals with the following major issues among others:

- the level of rewards;
- the use of job evaluation;
- the achievement of equal pay;
- the role of line managers; and
- Transparency of the reward policy.

2.5.1. Level of rewards

According to Armstrong (2007), The policy on the level of rewards refers to whether the company is a the leading payer in the industry, is content to pay median or average rates of pay or even, exceptionally, accepts that it has to pay below the average. Pay policy, is the result of several factors including: the extent to which the organization demands high levels of performance from its employees, the degree to which there is competition for good quality people, the traditional stance of the company, the organization culture, and whether or not it can or should afford to be a high payer.

Policies on pay levels will also refer to differentials and the number of steps or grades that should exist in the pay hierarchy. This will be influenced by the structure of the company under

consideration. Policies on the level of rewards should also cover employee benefits – pensions, sick pay, healthcare, holidays and perks such as company cars, i.e. total remuneration.

H1: The level of reward is correlated positively and significantly with psychological contract maintenance.

2.5.2. Use of job evaluation

According to Armstrong (2007), policy on the use of formal job evaluation procedures to determine internal relativities will depend on the policies on equal pay and internal equity as well. The policy should determine how a formal job evaluation should be used. The choice is between evaluating every job with the full scheme or allocating a support role to job evaluation, which, after the grade structure has been designed, is only used when grading‟s need to be validated or in special circumstances, which would need to be defined, e.g. for new jobs, for appeals against grading‟s or in equal pay reviews.

H2: The use of job evaluation is correlated positively and significantly with psychological contract maintenance.

2.5.3. Achieving equal pay

According to Armstrong (2007), a policy is required on the degree to which equal pay considerations should drive the management of the reward system. The policy should also cover the use of equal pay reviews. This raises the important policy issue of the degree to which pay levels should be market-led, which would mean that the pay inequities that exist outside the organization would be reproduced inside it.

H3: The achievement of equal pay is correlated positively and significantly with psychological contract maintenance.

2.5.4. The role of line managers

Line managers play a crucial role in administering rewards, and the policy should recognize this. The extent to which the responsibility for rewards should be devolved to line managers is a policy decision. The aim may be to devolve it as far as possible, bearing in mind the need to ensure that other reward policy guidelines are followed and that consistent decisions are made across the organization by line managers. The policy may cover the level of decisions managers can make, the guidance that should be made available to them and how consistency will be achieved. The training

and ongoing support that line managers require to exercise judgments on reward and to conduct performance management reviews could also be covered by the policy.

H4: The role of managers is correlated positively and significantly with psychological contract maintenance.

2.5.5. Transparency

One of the aims of reward management should be to enhance commitment, but there is no possibility of this being achieved if the organization is secretive about pay.

According to Armstrong (2007), without transparency, people will believe that the organization has something to hide, often with reason. There is no chance of building a satisfactory psychological contract unless the organization spells out its reward policies and practices and the reasons for them. Transparency is achieved through effective involvement and communication.

H5: Transparency of the reward policy is correlated positively and significantly with psychological contract maintenance.

2.6.Empirical Literature

Psychological contract can be described through individual and organizational level analysis. The Organizational level antecedents are analyzed and according to the author‟s finding one of the antecedents are Human Resource practices (Agarwal, 2014). The author goes through intensive literature review from the period 1972 to July 2013.

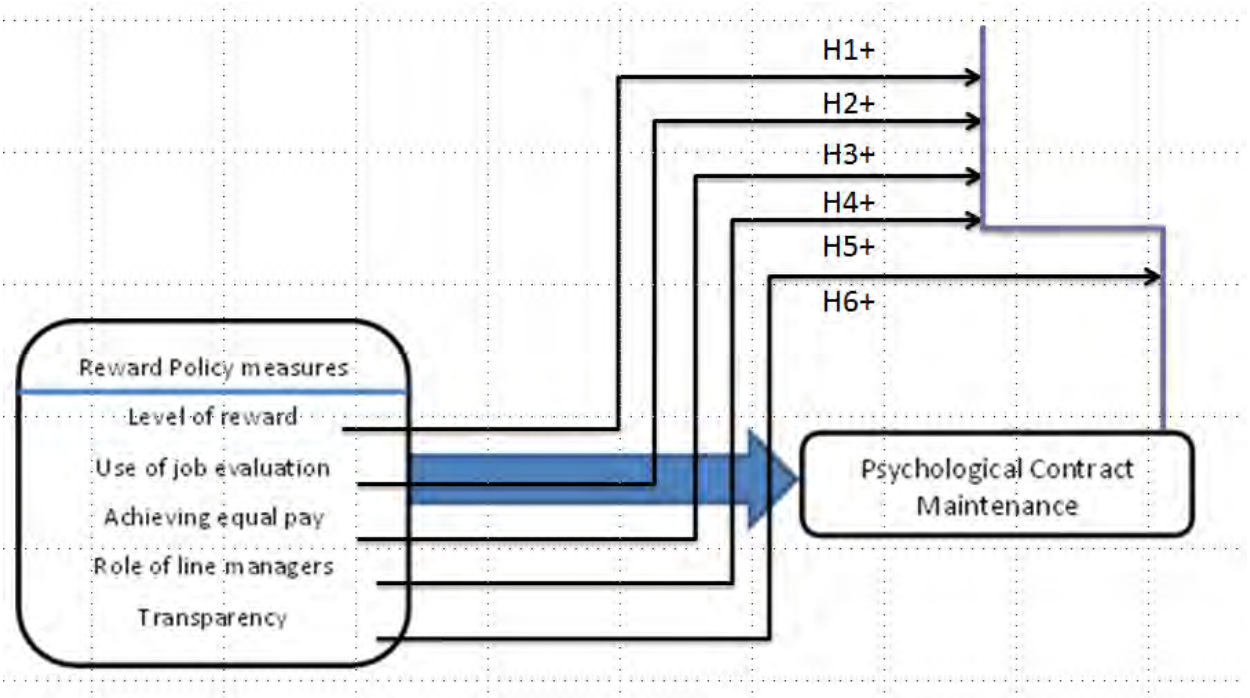
Furthermore, a recent study took place in Greece, to show the relationship between HR practices, psychological contract and organizational performance. So, according to the paper, the finding shows that the employee attitude of satisfaction, commitment and motivation, constitute a nested mediating epicenter of the HR practices (A.Katou, 2013).

Additional Paper from Jomo Kenyatta University of Agriculture and Technology provides an overview of the concept of psychological contract with the authors also reviewing literature concerning the effect that the human resource management practices have on the psychological contract in the context of modern organizations (Wangithi & Muceke, 2012).

2.7. Conceptual framework

The conceptual framework of the study specifies the nature of the hypotheses of the study, which were depicted in the diagrammatic form of Figure 2.1. According to the model, dependent variable is psychological contract maintenance and the independent variables are reward policies measures. The relations of these variables are supported on the basis of review of literatures.

Figure 2-1 Conceptual Framework



Source: Armstrong (2010): Components of reward policies

CHAPTER THREE

3. RESEARCH METHODOLOGY

This chapter presents the methodology that was used to carry out this study. It includes the research design, the target population, sampling techniques, and sample size determination, the data measurement used, the procedures to be followed for gathering data, and how the data was analyzed and presented.

Research methodology is a way of systematically solving the problem under research. Thus, it is considered as a terminology that describes structure of conducting research. In sum, there are many different types research methodologies used in various types of research and the term constitutes research design, data gathering and data analysis. (Kothari, 2004)

3.1.Research Design

Research is the technique for investigating something in a systematic manner. Hopkins (2000) suggested that quantitative research work connects independent and dependent variables. Thus, the study was conducted using Quantitative Descriptive type in the form of correlational research design was used as it appeared to be more appropriate in exploring the effect of reward policies on psychological contract maintenance. Descriptive studies try to describe characteristics of subject opinions, attitudes and perceptions of people interest to the researcher. Furthermore, Descriptive studies also aim at obtaining information from a representative selection of the population and from the same: the researcher is able to generalize the findings to a larger population.

3.2.Population and Sampling Design

3.2.1. Population of the Study

The sampling frame is the total population (1743) of employees located in AUC Headquarters. The researcher ensured that the sampling frame is unbiased, current and accurate. A stratified sampling technique was used in this study. The process involves dividing the population into two or more relevant and significant strata based on one or a number of attributes. The respondents are classified as Professional versus General Service category. A random simple was then drawn from each of the strata.

Employees who are outside the Head Quarters, and as well as those having below one year experience were not included in this research due to the short available time, geographical restrictions, access to data, expected rate of return from the study and the degree of literacy etc.

The samples for this research were selected based on accessibility, functional equivalence, and representativeness. The sample includes all employees located in headquarters: senior managers and non- managerial staff of the Commission.

The researcher ensured that the sample size is large enough to provide the necessary confidence in the data, the margin of error be within acceptable limits (95%) and the undertake analysis at the level of detail required. Neumann (2002) suggests that when calculating response rate, include all eligible respondents. The actual sample size was determined using the formula:

$$n = z^2 \frac{p.q}{d^2}$$

$$n = 1.11 \frac{0.5x0.5}{0.5^2} \qquad = 111$$

Thus the sample was distributed to 111 respondents proportionally under the sample frame. Questionnaires were distributed personally to the respondents. Of the 111 questionnaires distributed, 110 (99.09%) were collected and used for data analysis purpose.

3.2.2. Sampling Design

3.2.2.1. Sampling Frame

Respondents are diversified in terms of educational qualification, job‟s variety and other parameters, the participants‟ perceptions of psychological contract main on issues like reward policies has expected to be varied accordingly. Thus, stratified random sampling method applied to avoid such heterogeneity of the population.

The following explanation by Kothari (2004, p.62), in his research methodology book, complements the above rationale of this study for adopting the stratified sampling design. If a population from which a sample is to be drawn does not constitute a homogeneous group, stratified sampling technique is generally applied in order to obtain a representative sample.

Under stratified sampling, the population is divided into several sub-populations that are individually more homogeneous than the total population (the different sub-populations are called „strata") and then we select items from each stratum to constitute a sample. Since each stratum is more homogeneous then the total population, we are able to get more precise estimates for each stratum and by estimating more accurately each of the component parts, we get a better estimate of the whole.

3.2.2.2. Sampling Size

The study was used descriptive correlation research method through the stratified random sampling method that engaged both Professional and General Purpose staff category. In short, the following detailed sampling frame used to designate the subtotal of the population and the number of participants to be sampled proportionally from the total 111 samples of the study.

Population	Population Size	Sample Size
Professional Staff	540	34
General Purpose Staff	1203	77
Total	1743	111

Table 3-1 Sample Size Determination

3.3.Data Collection Procedures

Data collection was conducted based on primary and secondary sources of data. The primary data is collected from the sample using structured questionnaire measured on a five point Likert scale. The questionnaire is adopted from standard measures of reward policies and psychological contract measures and need to be checked for its validity and reliability.

Secondary data constitutes HR policy, reward strategy, HR manuals, published and unpublished information about the study area, books, and journals from the library and international publications.

3.4.Study Variables and instruments

3.4.1. Study Variables

The study has two variables: namely dependent and independent variables. The independent variables that explain the extent of reward policies are level of reward, use of job evaluation,

achieving equal pay, role of line managers and transparency. Dependent variable under this study is Psychological Contract Maintenance (PCM).

3.4.2. Instruments

The principal data collection tool was the self-administered questionnaire. The use of self-administered questionnaires has been credited for its suitability in gathering data on behavior, attitudes, opinions and beliefs (Tuli, 2010). The use of structured questions also ensured that respondents got identical questions hence ensuring standardized data (Oates, 2006) A Self-Administered Questionnaire (SAQ) was chosen because it enables one to reach out to a large audience even where respondents are widely spread out geographically. It is relatively free from the interviewer"s bias, gives the respondents time to answer questions, and it is suitable for very large samples making the results reliable and dependable, it can also be used to reach out to respondents who are generally considered unapproachable (Kothari, 2004).

The self-administered questionnaire came in handy for this study because the respondents were drawn across various AUC departments all of whom have dedicated email accounts and access to the internet.

For the purposes of this study, a number of elements were standard questions used by previous researchers in similar research.

Question format was based on 5 point Likert scale, where respondents were asked to complete the questions in varying degrees; for example "Strongly agree" to "disagree". The Likert scale has been credited for its usefulness in change management related research because it can be used to measure attitudes before and after the implementation of a particular programme (Kothari, 2004).

3.5.Method of Data Analysis

After the primary and secondary data gathering procedures completed, the collected data checked throughout the different phases (editing, coding, data entry and data analysis). Quantitative data analysis techniques employed. The SPSS statistical package was going to be used to analyze the data gathered using the questionnaire quantitatively. To confirm the collinear problem of constructs, the study used Pearson's correlation analysis and descriptive statistics

(Tabachnick, Barbara, & Fidell, 2001; Yaacob, 2008) and then multiple regression analysis was applied to assess the magnitude and direction of each independent variable, and measure the effect of the mediating variable in the relationship between many predictor variables and one measured variable (Foster, Stine & Waterman, 1998) cited by Warokka et al., (2012, p. 12). Finally, the results triangulated and presented using tables.

Descriptive Analysis: Descriptive Statistics allows the researcher to give explanation of different pieces of data with a few indices. Descriptive statistics such as standard Deviation and means were obtained for the independent and dependent variables.

Correlation Analysis: Correlation is a statistical technique that tests the "Interdependency" of the variables. According to (creative research systems, 2011) correlation analysis can tell the correlation among variables but it doesn‟t tell which relation is stronger.

Regression Analysis: was used to measure the relative strength of independent variables on Dependent variable.

Model for Regression Analysis

The multiple regression models have written with six independent variables as:

$Y=\beta o+\beta 1x1+\beta 2x2+\beta 3x3+\beta 4x4+\beta 5x5+\beta 6x6++ei;$

Where y=dependent variables, x1,x2,x3,x4,x5,x6=independent variables, β o is the intercept, β1 measures of change in y with respect to x1, holding other factor fixed, β2 measures of change in y with respect to x2, holding other factor fixed, β3 measures of change in y with respect to x3, β4 measures of change in y with respect to x4, β5 measures of change in y with respect to x5, β6 measures of change in y with respect to x6 and ei is error term.

3.6.Reliability

The Reliability of the primary data is crucial in a way that the study mainly depends on the respondent‟s opinion. Reliability refers to the extent to which the data collection techniques or analysis procedures will yield consistent findings. The researcher ensured that the data collection instruments were consistent and standardized so as to avoid threats such as subject or participant error or bias, observer error and bias by using the appropriate data collection techniques and analysis procedure.

Thus, a measuring instrument is reliable if it provides consistent results (Kothari, 2004). Thus, SPSS was used to calculate the Cronbach‟s Alpha reliability coefficient and make sure that it is more than 70%. As shown in the following Table 3.2, the facets under dependent and independent variables are tested. Therefore the scale used in this study has internal reliability because most of these values exceed the minimum accepted level (0.7) suggested by scholars.

Table 3-2: Reliability Test: Summary of measures

Variable	No. of Items	Cronbach‟s Alpha Result
Level of rewards	5	0.712
Use of Job evaluation	6	0.765
Achieving equal Pay	5	0.793
Role of line managers	3	0.820
Transparency	6	0.766
PCM	5	0.815

3.7.Research Ethics

Ethics refers to the appropriateness of behavior in relation to the rights of those who become the subject of your work, or are affected by it. Blumberg et al. (2005) define ethics as the “moral principles, norms or standards of behavior that guide moral choices about our behavior and our relationships with others”. Bryman and Bell (2007) is considering ethics in business research, deal with the following areas: confidentiality, anonymity, informed consent, invasion of privacy and deception.

Anonymity refers to concealing the identity of the participants in all documents resulting from the research; and confidentiality is concerned with the right of access to the data provided by individual participants and, in particular, the need to keep these data secret or private. With this appreciation of the value of ethical considerations in field work practice, the researcher was guided by benchmarked professional and moral standards associated with good research practice.

This author took cognizance of his role as a researcher, being that of „Privileged Observer-judge" (Fisher, 2004) in that this researcher was studying an organization in which he is involved and hence careful consideration was taken with regards to ethical principles of business research. The researcher carried out the research assignment in ways that protect informant identity, promote and protect academic integrity and show consciousness to develop ethical considerations with respect to sensitivity and alertness to avoiding injuring informant, reputation, image, emotions, confidence and relationships through reckless disclosures or irresponsible handling of volunteered informant data.

Participation in the study was voluntary and the research objectives were explained to all informants who participated in the research project. Responses were difficult to trace back to individual informants. Informed participant consent and exclusive use of proffered research information were upheld in all data gathering process. In doing so, this author requested for and was accorded access by the AUC (see Appendix on Questionnaire cover page) on condition of confidentiality of the information. Also in the design of Self-Administered Questionnaire care was taken to assure the confidentiality of information provided by the respondents.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1.Demographic Information of Respondent

The first part of the questionnaire consists of six items about demographic information of the respondents. It covers the personal data of respondents such as: Gender, Age, Educational Background, and Year of Service in the African Union Commission, and form of employment. The following subsequent tables will indicate the total demographic characteristics of the respondents.

Table 4-1: Biographical information of respondents

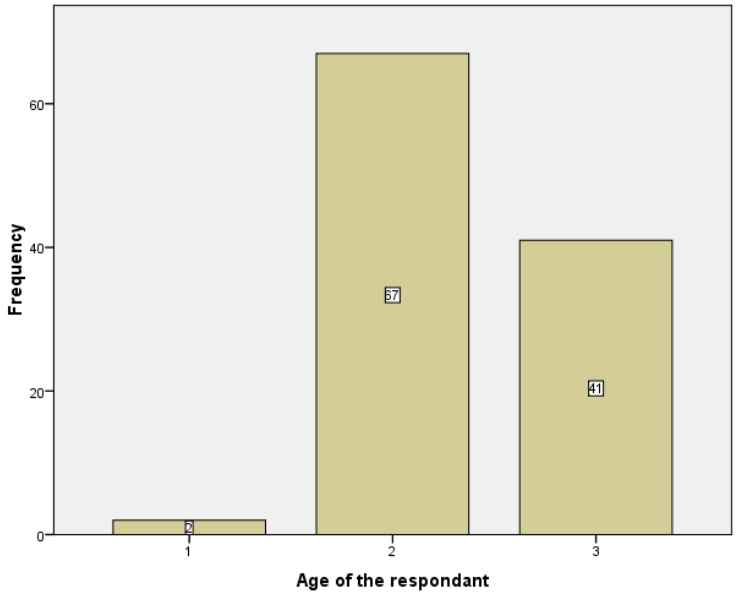
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Missing	1	.9	.9	.9
	Female	33	29.7	29.7	30.6
	Male	77	69.4	69.4	100.0
	Total	111	100.0	100.0	

As shown in table 4-1, of the total respondents 69.4% (77) were male and the remaining 29.7% (33) were female. This indicates that the number of proportions between male and female employees in the company is not proportional.

Table 4-2: Ages of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-29	2	1.8	1.8	1.8
	30-45	67	60.9	60.9	62.7
	46-60	41	37.3	37.3	100.0
	Total	110	100.0	100.0	

Figure 4-1: Age category of respondents



With regard to respondents‟ age category and according to table 4-2 and figure 4-1, the highest group of respondents i.e. 67(60.9%) fall under age category of 30 - 45. The next higher group 41 (37.3%) fall under age category of 46 -60. This implies that about 98.2% of the respondents are between 35 and 60 years of age. The remaining 2 (1.8%) of the employees are within the age category of 18 to 29 years Therefore, most of employees are above 35 years age.

Table 4-3: Permanent address of respondents in Africa

	Frequency	Percent	Valid Percent	Cumulative Percent
Northern Africa	12	10.9	10.9	10.9
Eastern Africa	60	54.5	54.5	65.5
Central Africa	12	10.9	10.9	76.4
Southern Africa	11	10.0	10.0	86.4
Western Africa	15	13.6	13.6	100.0
Total	110	100.0	100.0	

Regarding to the permanent address of the respondents, 60 (54.5%) of the respondents are coming from Eastern Africa, and 15 (13.6%) are originally from Western Africa. The remaining respondents are 12 (10.9%), 12 (10.9%) and 11 (10%) are from Northern Africa, Central Africa and Southern Africa, respectively. Thus, most of the respondents are from Eastern Africa, but

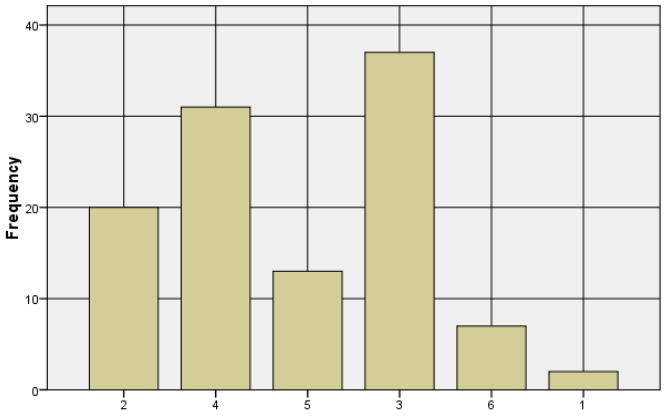
those respondents coming from the other parts of Africa are somehow proportionate in their number.

Table 4-4: Level of Education of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Certificate	1	.9	.9	.9
	Diploma	6	5.5	5.5	6.4
	First Degree	51	46.4	46.4	52.7
	HS Certificate	1	.9	.9	53.6
	Master's Degree and above	51	46.4	46.4	100.0
	Total	110	100.0	100.0	

In relation to employee level of qualification, Table 4-4 clearly indicates that majority of the workforces (92.8%) acquired their first degree and master degree and above. Diploma Holders constitutes of 5.5% and 2% of them are hold certificate and High school diploma. This implies that employees of the African Union Commission are educated.

Figure 4-2: Length of service of respondents



Based on Figure 4-2, Out 110 respondents, 1.8% had worked for a period of less than year, 18.2% for a period of between 1 and 5 years, 33.6% had been employed for 6 to 10 years while 28.2% had been in service of between 11 to 15 years and 11.8% of respondents had been working more from 16 to 20 years. The rest of 6.4% had worked for more than 20 years. It may be concluded that majority of the employees had been with the African Union Commission more than 6 years; this implies that senior staff are sensitive to Job Security. All respondents despite the period of service in the Commission had useful knowledge required for the study.

4.2.Data Analysis

The data collected from employees of African Union Commission through questionnaire is, analyzed and presented in the sections below with the help of tabular form. The descriptive statistics on the data analysis and procedures are presented on the basis of questions included in the psychological contract maintenance and the factors of the independent variable i.e. reward policy.

4.2.1. Data Analysis of Reward Policy Variables and Psychological Contract Maintenance

In section two of the questionnaire, research related questions were covered such as: the level of rewards, use of job evaluation, achieving equal pay, the role of line managers, transparency and psychological contract maintenance. In order to assess reward policies, their relationship with psychological contract maintenance, and six variables were selected and included in the questionnaires; 32 questions in six sub sections from Reward Policies and one question to assess the psychological contract maintenance. Accordingly, the analysis of each reward policies variables and psychological contract maintenance is as follows:

Survey scale: 1=Strongly Disagree, 2= Disagree, 3= Neutral, 4 = Agree and 5=Strongly Agree.

Response Category: Strongly Disagree (1.50 0r less), disagree (1.51 – 2.50), Neutral (2.51 – 3.49), Agree (3.50 – 4.49), and Strongly Disagree (4.50 and above) developed for this study. (Zedatol, 2008)

The following tables below summarized the results of respondents related to psychological contract maintenance and reward policies using cross tabulation. Each reward policy variable is considered against the response regarding to psychological contract maintenance by considering the total summary of the last column in each cross tabulation table below.

4.2.1.1. Employees Rating of Reward Policies Variables: the level of reward

In order to assess reward policies, their relationship with psychological contract maintenance, and six variables were selected and included in the questionnaires; 27 questions in six sub

sections from Reward Policies and five questions to assess the psychological contract maintenance. Accordingly, the analysis of each reward policies variables and psychological contract maintenance is as follows:

Table 4-5: Cross Tabulation of Level of Rewards and Psychological Contract Maintenance

		Agree	Disagree	Neutral	Strongly Disagree	Total
Level of Reward	Agree	5	12	16	1	34
	Disagree	1	1	1	0	3
	Neutral	6	30	26	8	70
	Strongly Agree	0	1	1	0	2
	Strongly Disagree	0	0	1	0	1
Total		12	44	45	9	110

In the above table 4-5 the sample respondents indicate the level of psychological contract maintenance in terms of level of reward practices in African Union Commission. As a result, 36 (agree + strongly Agree) employees out of 110 respondents", representing 32.7% indicated agree with the current level of rewards in order to maintain their PCM, while 70 respondents representing 63.6% could not determine their level of psychological contract maintenance with regards to the level of rewards within the Commission. On the other hand 4 respondents denoting that they disagree that the existing level of reward practice cannot lead to PCM. Accordingly, level of rewards in the company is rated as indifferent by the majority of the respondents.

4.2.1.2. Employees Rating of Reward Policies Variables: Use of Job Evaluation

Table 4-6: Cross Tabulation of use of Job Evaluation and PCM

		Agree	Disagree	Neutral	Strongly Disagree	Total
Use of Job Evaluation	Agree	8	34	32	7	81
	Disagree	0	0	1	0	1
	Neutral	0	9	7	2	18
	Strongly Agree	4	1	5	0	10
Total		12	44	45	9	110

In the above table 4-6 the sample respondents indicate the level of psychological contract maintenance in terms of use of Job evaluation in African Union Commission. As a result, 91

employees out of 110 respondents", representing 82.7% were indicate that they agree with the use of job evaluation in order to maintain their PCM, while 18 respondents representing 16.4%% , disagree that the level of psychological contract maintenance with regards to use of Job evaluation within the Commission. In sum, use of job evaluation is rated as agreed by the majority of the respondents.

4.2.1.3. Employees Rating of Reward Policies Variables: Achieving Equal Pay

Table 4-7: Cross Tabulation of Achieving Equal Pay and PCM

		Agree	Disagree	Neutral	Strongly Disagree	Total
Achieving Equal Pay	Agree	6	21	21	3	51
	Disagree	0	1	2	0	3
	Neutral	0	1	0	0	1
	Strongly Agree	6	21	21	6	54
	Strongly Disagree	0	0	1	0	1
Total		12	44	45	9	110

In the above table 4-7 the sample respondents indicating the level of psychological contract maintenance in terms of achieving equal pay in African Union Commission. As a result, 105 employees out of 110 respondents", representing 95.5% were indicate agree with the current setup in achieving equal pay in order to maintain their PCM. Thus, achieving equal pay in the company is rated as agreed by the majority of the respondents.

4.2.1.4. Employees Rating of Reward Policies Variables: Role of Line Managers

Table 4-8: Cross Tabulation of Role of line managers and PCM

		Agree	Disagree	Neutral	Strongly Disagree	Total
Role of Line managers	Agree	3	0	3	0	6
	Disagree	6	16	16	4	42
	Neutral	2	26	24	5	57
	Strongly Agree	1	0	2	0	3
	Strongly Disagree	0	2	0	0	2
Total		12	44	45	9	110

In the above table 4-8, the sample respondents are indicated showing the level of psychological contract maintenance in terms of role of line managers in African Union Commission. As a

result, 9 of 110 respondents‟, representing 8.12% were agree with the role of line managers (division heads) in order to maintain their PCM, while 57 respondents representing 51.8% could not determine their level of psychological contract maintenance with regards to the role that the line managers play within the Commission. On the other hand 44 respondents denoting that they disagree that the existing role by line managers towards reward policies cannot lead to PCM. Accordingly, the level of role of managers described as a shift between indifferent and disagrees, by the majority of the respondents.

4.2.1.5. Employees Rating of Reward Policies Variables: Transparency

Table 4-9: Cross Tabulation of Role of line managers and PCM

		Agree	Disagree	Neutral	Strongly Disagree	Total
Transparency	Agree	8	5	24	0	37
	Disagree	0	5	0	0	5
	Neutral	1	34	19	9	63
	Strongly Agree	3	0	2	0	5
Total		12	44	45	9	110

In the above table 4-9, the summary of sample respondents indicated the level of psychological contract maintenance in terms of transparency of the reward policies in African Union Commission. As a result, 63 employees out of 110 respondents‟ are representing 57.3% were indicate that they are indifferent with the transparency of reward policies in order to maintain their PCM, while 42 respondents representing 38.2% agree on their level of psychological contract maintenance with regards to the transparency of reward policies within the Commission. On the other hand 5 respondents denoting that they disagree that the existing transparency on reward policies practice cannot lead to PCM. Accordingly, level of rewards in the company is rated as switching between agree and indifferent, by the majority of the respondents.

According to the above results, the frequency of rating by the respondents can be summarized in table 4- 10: and infer that respondents are agreed in almost all facets of the variables.

Table 4-10: Summary of Respondents

Independent Variable	Overall Agree rate	Overall disagree rate
Level of rewards	36/110 = 32.7%	4/110 = 3.6%
Use of job evaluation	91/110 = 82.7%	1/110 = 0.9%
Achieving Equal pay	105/110 = 95.5%	4/110 = 95.5%
Role of line managers	09/110 = 8.2%	44/110 = 8.2%
Transparency	42/110 = 38.2%	5/110 = 38.2%

4.2.2. Data Analysis: Questions directly related to PCM

The respondents were requested to rate in a five point Likert scale with a question: "what is the level of psychological contract due to the reward policies in place?" Accordingly, the finding reveal that 12 respondents, representing 10.9% were agreed in the on the PCM, while 44 respondents, representing 48.2% were disagreed with PCM on the existing reward polices practice. It was also revealed that 45 respondents, representing 40.9% were neither agree nor disagree with psychological maintenance level. The summary of the response related to overall psychological contract switching between disagree and neutral status, as it was depicted by table 4 -11 below.

Table 4-11: Respondents Overall psychological contract maintenance level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	12	10.9	10.9	10.9
	Disagree	44	40.0	40.0	50.9
	Neutral	45	40.9	40.9	91.8
	Strongly Disagree	9	8.2	8.2	100.0
	Total	110	100.0	100.0	

4.3.Descriptive Statistics

The major objective of this study was to examine the relationship between reward policies and psychological contract maintenance at the African Union Commission. This objective was guided by the research question: "What is the psychological contract fulfillment level of employees with regard to the current reward policy of the commission?" thus, the dependent variable is psychological contract maintenance while the independent variables are reward policies variables. According to Zedatol (2008), mean score 3.80 is consider high, 3.40-3.79 is

moderate and below 3.39 is low satisfaction. Thus, the reward practices in the study considered by the above thresholds.

4.3.1. Univariate Analysis

In this Section, Descriptive Statistics in the form of Mean and Standard Deviation for the various components of Rewards and Job Satisfaction is computed.

Table 4-12: Descriptive Analysis for the parameters of Reward Policies and PCM

Variables	N	Mean	Std. Deviation
Level of Rewards	110	3.3291	.57571
Use of Job Evaluation	110	3.8626	.43827
Achieving Equal Pay	110	4.3400	.62753
Role of line managers	110	2.6455	.68518
Transparency	110	3.3470	.51735
Psychological Contract Maintenance	110	2.5855	.70579
Valid N (list wise)	110		

Table 4-12: shows the Mean and Standard Deviation of reward variables such as: level of rewards, use of job evaluation, achieving equal pay, role of line managers and transparency. The overall result indicates that the levels of psychological contract of employees at AUC are 2.59 Mean with 0.701 SD. Based on the fact that a mean of 2.59 is indicative moderate level of psychological contract maintenance among the respondents. Thus it can be concluded that the employees in AUC had moderate level of psychological contract maintenance.

According to Zedatol (2008), the result from this study shows that high Mean result for achieving Equal Pay (M=4.34, SD=.628), and use of Job Evaluation (M=3.87, SD=.439); to the less Mean scoring variables such as: Transparency (M=3.35, SD =.517), Level of Rewards (M=3.33, SD=.576) and Role of line Managers (M=2.65, SD=.685).

4.4.Inferential Statistics

Inferential statistics is calculated in order to determine the relationships and differences that exist between the dependent variable (PCM) and independent variables (selected demographic variables). Also, it was used to perform regression analysis, ANOVA, and to test the research hypotheses.

4.4.1. Bivariate Analysis

The bivariate analysis includes the correlation and regression analysis which is used to investigate the relationship between reward policies and the psychological contract maintenance. Using Pearson correlation with two tailed test of significance, the correlation analysis is made to investigate the relationships. Using the regression analysis, the impact of the variables is investigated.

4.4.1.1. Correlation Analysis

Correlation analysis is applied to test the "interdependency" of the variables. In this section, the direction and degree of the strength of the relationship among the variables are determined using correlation analysis (table 4-13) below, and it is possible to examine the correlation among all dimensions of the independent variables of level of rewards, use of job evaluation, achievement of equal pay, the role of line managers, and transparency of the reward policy and the dependent variables of psychological contract maintenance. The correlation analysis result provides initial evidences for further analysis of the hypotheses determined in the paper.

Table 4-13: Correlation Coefficient: Relationship between reward policies and PCM

Correlations

		PCM	LOR	UJE	AEP	RLM	TRY
PCM	Pearson Correlation	1	.145	.295**	-.091	.366**	.624**
	Sig. (2-tailed)		.132	.002	.346	.000	.000
	N	110	110	110	110	110	110
LOR	Pearson Correlation	.145	1	.406**	-.061	.171	.124
	Sig. (2-tailed)	.132		.000	.529	.073	.195
	N	110	110	110	110	110	110
UJE	Pearson Correlation	.295**	.406**	1	.205*	.223*	.381**
	Sig. (2-tailed)	.002	.000		.031	.019	.000
	N	110	110	110	110	110	110
AEP	Pearson Correlation	-.091	-.061	.205*	1	.161	.091
	Sig. (2-tailed)	.346	.529	.031		.094	.344
	N	110	110	110	110	110	110
RLM	Pearson Correlation	.366**	.171	.223*	.161	1	.603**
	Sig. (2-tailed)	.000	.073	.019	.094		.000
	N	110	110	110	110	110	110
TRY	Pearson Correlation	.624**	.124	.381**	.091	.603**	1
	Sig. (2-tailed)	.000	.195	.000	.344	.000	
	N	110	110	110	110	110	110

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

The above table 4-13 shows that Transparency (r=.624**, p<0.05), Role of line Managers (r=.366**, p<0.05), and Use of Job Evaluation (r=.295**, p<0.05), Level of rewards (r=.145, p>0.05) and Achieving equal pay (r=-.091**, p>0.05) have the corresponding r coefficient and the significant level at 95%.

According to Cohen (1998), the correlation coefficient (r) ranging from 0.10 to 0.29 may be regarded as indicating a low degree of correlation, r ranging from 0.30 to 0.49 may be considered as a moderate degree of correlation, and r ranging from 0.50 to 1.00 may be regarded as a high degree of correlation.

Thus, Transparency and Role of line manager have a strong and significant relationship, while use of Job evaluation and level of reward have moderate correlation and finally achieving equal pay has a low correlation, with psychological contract maintenance of employees in African Union Commission.

Therefore it can be concluded that, all of the facets reward policies have positive significant above average relationship with the overall psychological contract maintenance of employees of the AUC. Hence, the null hypothesis is rejected for all facets at $p < 0.05$.

Hence, correlation analysis only shows the existence of positive and significant relationship between the Independent and Dependent Variables. Based on the above preliminary test results, the assumptions of the multiple linear regression analysis model have been met. Thus, the subsequent analysis results are depicted below.

4.4.1.2. Multiple Regression Analysis

Multiple Regressions analysis helps to measure the relative strength of independent variables on dependent variables i.e. to determine the impact of reward policies on psychological contract maintenance as depicted in table 4-14 below, the result revealed R^2 value of .420. This indicates that 42% of variance that explained the psychological contract maintenance of AUC employees in terms of level of rewards, use of job evaluation, achieving equal pay, role of line managers and transparency.

Table 4-14: Regression Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.648[a]	.420	.392	.55045	.420	15.040	5	104	.000

a. Predictors: (Constant), TRY, AEP, LOR, UJE, RLM

The Dependent Variable: Psychological Contract Maintenance (PCM)

In the above table 4-14, the value R^2 (.420) can be interpreted as the model is fit since it is greater than the acceptable value. The variation of R^2 and Adjusted R^2 (.392) resulted in (2.8%) implies that, there is insignificant change which in turn tell us that the results can be generalized beyond the sample to the population.

Table 4-15: Multi collinearity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.015	.601		-.025	.980		
	LOR	.027	.103	.022	.266	.790	.791	1.264
	UJE	.145	.146	.090	.995	.322	.678	1.475
	AEP	-.184	.088	-.164	-2.086	.039	.908	1.101
	RLM	.009	.099	.009	.092	.927	.608	1.645
	TRY	.813	.136	.596	5.978	.000	.561	1.782

a. Dependent Variable: PCM

Based on the above table 4-16, multiple regression analysis was conducted to predict the percentage of Psychological Contract Maintenance based on the predictors: level of rewards, use of job evaluation, achieving equal pay, role of line managers and transparency. The overall variance explained by the five predictors is 42%. Regarding multicollineraity, since the tolerance level of all the variables is greater than 0.001 and VIF value is closer to one (ranging from 1.101 to 1.782), there is not multicollinearity. For multicollinearity to exist, when the tolerance level is less than 0.001 and the VIF is much greater than 1.

4.5.Testing Hypothesis

According to Table 4-14 above, the coefficient of multiple correlations R which is the degree of association between reward policies facets and that of psychological contract maintenance is 0.648. With the R square value of 0.420 and adjusted R square of 0.392, the model summary reveals that the proportion of the variation in psychological contract maintenance is explained by the five facets jointly is 39.2% and the remaining 60.8% of the variance is explained by other variables not included in this study. The F-statistic of 15.040 at 5 and 104 degrees of freedom further shows that the explanatory variables considered in this study can significantly explain the variation on the dependent variable (psychological contract maintenance) at 0.000 (99%) confidence levels.

Table 4-16: Multiple Regression Analysis: Reward Policies and PCM

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-.015	.601		-.025	.980	-1.207	1.177
	LOR	.027	.103	.022	.266	.790	-.177	.232
	UJE	.145	.146	.090	.995	.322	-.144	.435
	AEP	-.184	.088	-.164	-2.086	.039	-.359	-.009
	RLM	.009	.099	.009	.092	.927	-.187	.205
	TRY	.813	.136	.596	5.978	.000	.543	1.083

a. Dependent Variable: PCM

In addition, table 4-16 portrays that, when the other variables that are not included in this study but have impact on the dependent variable (psychological contract maintenance) are controlled, two of the explanatory variables are statistically significant at 99% confidence level, and transparency (the chance to give direction for others) was found to be the best predictor psychological contract maintenance with Beta-value of 0.596. This is followed by achieving equal pay, having beta value of -1.64. On the other hand, the three variables: level of reward, use of job evaluation and role of line managers were found to be not significant at 99% ($p < 0.01$) confidence level but they were significant at 95% ($p < 0.05$) confidence level.

Therefore it can be concluded that, the null hypothesis is rejected (the alternate hypothesis is accepted) for the two facets: achieving equal pay and transparency were found to be significant at 99% confidence level to explain psychological contract maintenance of employees of the AUC.

CHAPTER FIVE

5. SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

5.1.Summary of Findings

This study was conducted to investigate the degree of psychological contract maintenance of employees of African Union Commission based on the data collected through structured questionnaire. The study was conducted through questionnaire data collected from 110 employees of the Commission.

The sample consisted majority of male respondents (n = 77 or 69.4%) than females (n = 33 or 29.7 %). Most of respondents were originally from Eastern Africa (n = 60 or 54.5%). Most of the respondents are in the age category of 30-45 years (n = 67 or 60.9%), possess BA/BSc degree or Master‟s Degree and above (n = 51 or 46.4%), and served their organization from 6 to 10 years (n = 37 or 33.6%).

The result of the descriptive statistics showed that, employees have ranked factors that they think most important for employee‟s psychological contract maintenance. As a result, achieving equal pay and use of job evaluation were ranked as the first two most important factors followed by transparency, level of rewards and role of line managers. Furthermore, the mean score showed that employees of the Commission seem agreed with achieving equal pay (mean = 4.340, SD = 0.517), use of job evaluation (mean = 3.86, SD = 0.438), and transparency (mean = 3.35, SD= 0.517) respectively. On the other hand, employees are least agreed with level of rewards (mean = 3.33, SD = 0.578), and the role of line managers (mean = 2.65, SD = 0.685).

The result form the correlation analysis shows that Transparency ($r=.624^{**}$, $p<0.05$), Role of line Managers ($r=.366^{**}$, $p<0.05$), and Use of Job Evaluation ($r=.295^{**}$, $p<0.05$), Level of rewards ($r=.145$, $p>0.05$) and Achieving equal pay ($r=-.091^{**}$, $p<0.05$) have the corresponding r coefficient and the significant level at 95%. Thus, Transparency and Role of line manager have a strong and significant relationship, while use of Job evaluation and level of reward have moderate correlation and finally achieving equal pay has a low correlation, with psychological contract maintenance of employees in African Union Commission.

Multiple regression analysis was conducted to predict the percentage of Psychological Contract Maintenance based on the predictors: level of rewards, use of job evaluation, achieving equal pay, role of line managers and transparency. The overall variance explained by the five predictors is 42%. Regarding multicollineraity, since the tolerance level of all the variables is greater than 0.001 and VIF value is closer to one (ranging from 1.101 to 1.782), there is no multicollinearity.

The results of the multiple regression analysis regressing reward policy facets against psychological contract maintenance, as dependent variable reveals with F-statistic of 15.040 at 5 and 104 degrees of freedom further shows that the explanatory variables considered in this study can significantly explain the variation on the dependent variable (psychological contract maintenance) at 0.000 (99%) confidence level.

5.2.Conclusion

The focal purpose that this study tried to assess the impact of reward policy dimensions on psychological contract maintenance level and to observe which reward policy dimension contribute most in maintaining PCM. The impacts of these variables were thoroughly investigated and their degrees of determinations have been identified.

The empirical findings of the study revealed that employees of Commission agreed with the achieving equal pay and use of job evaluation, and least agreed with transparency, level of reward and role of line managers respectively. Furthermore, the study has attempted to check different hypotheses and drawn the following findings:

- There is a strong significant positive relationship between achieving equal pay and transparency employees Commission.
- There is a less significant positive relationship between psychological contract maintenance and the level of reward, use of job evaluation, and role of line managers. Generally, the Regression Analysis for this study confirmed that reward policy parameters have influential factor on psychological contract maintenance among employees of the Commission.

Therefore it can be concluded that, the null hypothesis is rejected (the alternate hypothesis is accepted) for the two facets: achieving equal pay and transparency were found to be significant at 95% confidence level to explain psychological contract maintenance of employees of the AUC. And, the null hypothesis can be accepted for level of reward, use of job evaluation, and role of line managers.

5.3.Recommendations

Base on the major findings that have been discussed so far the following points are recommended for practical application to enhance the psychological contract maintenance of the employees at the African Union Commission:

- The management of the AUC should have clearly stated and well-articulated reward policy that can be competitive as compared to other best practices in organizations like United Nations and other international organizations working as NFP organizations.
- Management should identify areas where there is a gap in regarding transparency as the reward policy dimension on psychological contract maintenance and involve employees to be part of the reward policy formulation that need to be done in a continuous manner in order to increase the transparency level;
- Regarding the role of line managers (division heads), the Commission should involve the dialogue between Division Heads and their respective supervisee, to raise the level of employees‟ motivation in order to fulfill the psychological contract maintenance level;
- The management should be actively involved in sound decision with the concerned body and strive to accomplish that the existing reward policy of the company need continuous revision, revisiting and restructuring to ensure their fairness and competitiveness in the market and maximization of psychological contract maintenance from the views of employees.

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APPENDIX

APPENDIX A: African Union Member States per Region

	Northern	Eastern	Western	Central	Southern
	Algeria	Comoros	Benin	Burundi	Angola
	Egypt	Djibouti	Burkina Faso	Cameroon	Botswana
	Libya	Eritrea	Cape Verde	Central African Republic	Lesotho
	Mauritania	Ethiopia	Ivory Coast	Chad	Malawi
	Tunisia	Kenya	Gambia	Congo	Mozambique
	Saharawi Arab Democratic Republic	Madagascar	Ghana	Democratic Republic of Congo	Namibia
		Mauritius	Guinea	Equatorial Guinea	South Africa
		Rwanda	Guinea Bissau	Gabon	Swaziland
		Seychelles	Liberia	Sao Tome and Principe	Zambia
		Somalia	Mali		Zimbabwe
		Sudan	Niger		
		Tanzania	Nigeria		
		Uganda	Senegal		
		South Sudan	Sierra Leone		
			Togo		

Source: Council Resolution No.464 (XXVI) 1996 of 26th March 1976 Ordinary Session, on the Membership of the OAU

APPENDIX B: Participant Information Sheet

Dear respondent:

My name is Abraham Kebede Gizaw, Masters of Arts in Human Resource Management postgraduate student at School of Commerce, Addis Ababa University. I am working on my MA-HRM dissertation titled: **The Relationship between Reward Policies and Psychological Contract Maintenance: the case of African Union Commission (AUC)**. This instrument is sent to you in order to assess your experiences, views, and attitudes on existing reward policies and their relationship with the maintenance of Psychological Contract of employees.

Your responses to questions in this instrument shall provide the study with the chance to generate balanced and objective findings on the subject matter. I pledge that the responses you provide here will be used for no other purposes than those specified above; your anonymity shall be maintained; and that the outputs of the study will not be manipulated towards any end whatsoever. As a primary stakeholder, your cooperation shall be of great meaning to the process and outcomes of this study and is duly appreciated.

The questions in this instrument are organized in seven sections:

Introduction: Demographic background and employment history,

PART I: Level of reward

PART II: Use of Job Evaluation

PART III: Achieving equal pay

PART IV: The role of line managers

PART V: Transparency

PART VI: Psychological Contract Maintenance.

Should you have any queries on this questionnaire, please feel free to contact me at calcmax711@yahoo.com or call me on Ext. 4199.

Thank You for Your Cooperation!

APPENDIX C: Questionnaire

Part I: Demographic and Job Profile /Background of Respondents

1. **What is your gender?**

   ☐ Male

   ☐ Female

2. **What is your age?**

   ☐ 18-29 ☐ 46-60

   ☐ 30-45 ☐ Above 60

3. **Which of the following best explains where you come?**

   ☐ Northern Africa ☐ Eastern Africa

   ☐ Southern Africa ☐ Central Africa

   ☐ Western Africa ☐ Other

4. **Please indicate the level of education:**

   ☐ High School Certificate ☐ First Degree

   ☐ Certificate (technical/professional) ☐ Masters Degree and Above

   ☐ Diploma

5. **Please indicate the year/s of service at the AUC:**

   ☐ Up to 1 year ☐ 11-15 years

   ☐ 1-5 years ☐ 16-20 years

   ☐ 6-10 years ☐ More than 20 years

6. **Please specify your present employment type (form of employment):**

   ☐ Short term contract

   ☐ Regular contract (Continuing)

   ☐ Consultant

   ☐ Other

Part II: Respondent's Experience and views regarding the existing reward policy and its relationship with Psychological Contract Maintenance

Please rate your responses based on your views and experience regarding the existing reward policy. The highest score is **5 points** and is selected if you **"strongly agree"** with the message conveyed in the statement. Subsequently **4 points** imply that you "**agree**" while **3 point** means you are "**neutral**" on the issue. On the other hand, **2 points** represent the notion that you "**disagree**" with the assumption of that particular statement. The lowest score is **1 point** and reflects that you "**strongly disagree**" with the message conveyed in the statement.

Depending on your level of agreement, put an **X** mark against each statement under the scale that represents your view.

Note: the questions are provided in statement forms that convey a positive note. This approach is chosen for purposes of consistency and simplicity during analysis and interpretation of data. Please put your answers as fairly and objectively as possible.

I. The Level of Reward Practices

	5	4	3	2	1
Base salary is based on practice in the relevant labor market.					
One of the performance criteria in annual incentives has level of competency measure.					
The structure of long-term incentives is consistent.					
Bonuses improve my performance.					
Tasks to be accomplished are associated with bonuses and incentives.					

II. Use of Job Evaluation

The Hay Group Guide Chart Profile Method of Job Evaluation	**5**	**4**	**3**	**2**	**1**
Practical procedures, specialized techniques and knowledge within occupational fields are used in Job Evaluation.					
Integrating and harmonizing the diverse elements involved in managerial situations.					
Active, practicing person-to-person skills in work with other people, within or outside the organization.					
The environment in which thinking takes place is considered in evaluating Jobs.					

The challenge presented by the thinking to be done is considered.					
The personal, procedural, or systematic guidance or control of actions in relation to the primary emphasis of the job is observed.					
The job can directly affect actions necessary to produce results within its primary emphasis.					
The organization encompassed by the primary emphasis of the job.					

III. Achieving Equal Pay

Arvey, RD (1986) Sex bias in job evaluation procedures, Personnel Psychology, 39, pp 35–48	**5**	**4**	**3**	**2**	**1**
There is non-discriminatory analytical job evaluation scheme designed and operated to avoid discrimination.					
The management conducts regular equal pay reviews or audits.					
There is objective and non-discriminatory justification for any differences in pay between men and women.					
A non-discriminatory grade and pay structure practice is in place.					
There is a provision of equal opportunities to enable women to have the same chance as men to progress their careers.					

IV. The role of line managers (Division Heads)

HUTCHINSON, S. and PURCELL, J. (2003): Bringing policies to life: the vital role of front line managers in people management	**5**	**4**	**3**	**2**	**1**
Line managers involve in enabling the Human Resource (HR) policies and practices, or bringing them to life.					
Line managers' acts upon advice or guidance from HR for reward.					
Line managers control the work flow by directing and guiding the work of others.					

IV. Transparency

	5	4	3	2	1
Senior management determines who receives an award.					
Team members able to nominate the team or peers for an award.					
Team members able to nominate other team or peers outside of their team for an award.					
Formal recognition events increase the motivational value of a recognition program.					
Informal recognition is of equal importance as formal recognition events.					
Broad recognition at a major event within the Commission increases the motivational value of a recognition program.					

VI. Psychological Contract Maintenance of Employees

	5	4	3	2	1
The reward policy is providing a basis for the joint agreement and definition of roles.					
Communicating expectations in the form of targets, standards of performance, behavioral requirements (competencies) and upholding core values is practiced.					
There is an agreement on the contribution both parties (the manager and the individual) have to make to get the results expected.					
There is a practice that gives financial rewards through schemes that deliver messages about what the organization believes to be important.					
Giving employees opportunities at performance review discussions to clarify points about their work.					

Thank you for completing the questionnaire!