

**PSYCHOLOGICAL CONTRACT STATE, EMPLOYEE OUTCOMES,  
EQUITY SENSITIVITY, LEADERSHIP STYLE AND PERFORMANCE OF  
PUBLIC WATER SERVICE PROVIDERS IN KENYA**

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## DECLARATION

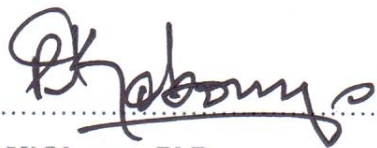
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## **DEDICATION**

To Yahawaha who in His majesty and wisdom has allowed this thesis to be accomplished.  
Also to our late kid sister Golletti Nduta and dad James Mukune who taught me to fear Elohim.  
Your names will always be remembered.

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## ACRONYMS AND ABBREVIATIONS

<b>CEO</b>	Chief Executive Officer
<b>ESI</b>	Equity Sensitivity Index
<b>HR</b>	Human Resource
<b>HRM</b>	Human Resource Management
<b>IRA</b>	Internal Relationship Architecture
<b>KPIs</b>	Key Performance Indicators
<b>MDGs</b>	Millennium Development Goals
<b>MWI</b>	Ministry of Water and Irrigation
<b>NRW</b>	None Revenue Water
<b>OCB</b>	Organizational Citizenship Behavior
<b>O &amp; M</b>	Operations and Maintenance
<b>PC</b>	Psychological Contract
<b>PCD</b>	Performance Contracting Department
<b>PCSC</b>	Performance Contracts Steering Committee
<b>PRSP</b>	Poverty Reduction Strategy Paper
<b>SCA</b>	Sustainable Competitive Advantage
<b>S. D.</b>	Standard Deviation
<b>SDGs</b>	Sustainable Development Goals
<b>SEM</b>	Structural Equation Modeling (also called covariance structure analysis)
<b>SET</b>	Social Exchange Theory
<b>SPAs</b>	Service Provision Agreements
<b>RBT</b>	Resource Based Theory
<b>TMES</b>	Triadic Measure of Equity Sensitivity
<b>WARIS</b>	Regulation Information System
<b>WASREB</b>	Water Service Regulatory Board
<b>WSBs</b>	Water Service Boards
<b>WSPs</b>	Water Service Providers

## ABSTRACT

This study focused on psychological contract, employee outcomes, equity sensitivity, leadership style and performance of water public service providers (WSPs) in Kenya. The studies linking psychological contract state to organization performance are very few. The few studies indicate that there is no clear relationship between psychological contract state and organizational performance. Different from other studies, this study introduced employee outcomes as mediator and equity sensitivity and leadership styles as moderators. The main objective of the study was to determine the relationships between and among psychological contract, employee outcomes, equity sensitivity, leadership styles and organizational performance of the WSPs. More specifically, the study was set to establish effect of different combinations of predictor variables such as psychological contract state, employee outcomes, equity sensitivity and leadership style on the organizational performance. The study was founded on resource based theory of sustainable competitive advantage and social exchange theories. A conceptual model and hypotheses that guided this study were developed from the literature. The population of the study consisted of 100 water service providers companies (WSPs) in Kenya. The study used cross sectional survey design where data was collected at one point in time across the WSPs. The primary data was collected using a semi structured questionnaire. The secondary data on organizational performance was obtained from the Water Services Regulatory Board's (WASREB) performance review of Kenya's water service sector 2014. The respondents were the top and middle managers from departments and sections. Data was analyzed and interpreted based on descriptive statistics, correlations, linear, multiple and stepwise regression. The findings of the study comprised positive significant relationship between psychological contract and organizational performance; there was partial mediation effect of employee outcomes. The effect of psychological contract state on organization performance is direct and not indirect through employee outcomes as was hypothesized. Equity sensitivity did not moderate the relationships between psychological contract (PC) state and organizational performance. There was no moderation effect of leadership style on the relationship between psychological contract state and organizational performance. Finally, the joint effect of psychological contract state, employee outcome, equity sensitivity and leadership style on organization performance was supported. However, out of curiosity a post hoc analysis was performed on hypothesis two that was not confirmed in the initial analysis. This hypothesis is now confirmed. The results are presented in the table 5.1. There was positive significant relationship between employee outcomes and organizational performance. There was mediation effect of PC state in the relationship between employee outcomes and organizational performance. The equity sensitivity did not moderate on the relationships between employee outcomes and organizational performance. And the joint effect of psychological contract state, employee outcomes, leadership style, equity sensitivity and organization performance was supported. Managers may therefore use the findings of this study to improve the organization's performance. The findings of this study will assist the practitioners in formulating policies and making decisions in the area of psychological contract, employee outcomes, leadership style, equity sensitivity and, organizational performance. Future researchers could apply structural equation modeling analysis methods for analysis instead of using step wise analysis. This will enable the testing of moderated mediation while at the same time address the measurement error which a major concern.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

The contemporary global business environment is increasing dynamic with intense competition in organizational performance. To cope and survive these turbulences and competition, the organizations pursue improved pecuniary profit and sustained competitive advantage. The resource based theory of the firm (RBT) is viewed as an answer to the acquisition of the sustainable competitive advantage. Among the firm resources which are the basic source of the profit and competitive advantage is the human resource (Khan, Dongping & Ghauri, 2014). The reason is HR can facilitate the development of the firm-specific competencies and complex social relationships which generate the tacit knowledge (Barney, 1991; Lado & Wilson, 1994) and organizational learning (Matthews & Shulman, 2005). However, the nature of the human asset itself is a management dilemma because of the causal ambiguity which poses uncertainty about factors contributing to successful performance of the organization (Coff, 1997). The organizational performance is founded on employee job performance driven by their attitudes and behavior (Khan, Dongping & Ghauri, 2014). These employee outcomes are the main source of social complexity and causal ambiguity that seemingly occupy the human resource management (HRM) studies.

The term psychological contract was introduced in organization behavior in a qualitative study by Argyris (1960). The terminology symbolized a relationship bounded with an avowed understanding between supervisors and workers. The former adopted a leadership culture that satisfied the latter's desires with resultant high production and low grievances (Argyris, 1960). However, the researchers on the PC acknowledge the existence of a fundamental gap due to lack of construct clarity and validity (Guest, 1998a, b; Anderson & Schalk, 1998; Cullinane & Dundon, 2006; Del campo, 2007). The gap relates to poor conceptualization of the construct (psychological contract) in the early attempts at theory building (Schein, 1980, cited by Roehling, 1997).

At the present there are the two schools of thought namely; the unilateral school by Rousseau (1990, 1998) and two parties (dyadic) school by Guest (1998a,b). These represent two different viewfinder positions depending on whether one looks at the PC from the perspective of a party in the contract or from perspective of an arbiter in the relationship. Guest (1998a)



suggested that this parallax is due to lack of the PC clarity which needs to be resolved so as to retain the concept as a powerful explanatory variable. To solve this, a panoramic position unifying the two schools of thought as illustrated in Appendix 8 (Njenga, 2011) will be applied.

### **1.1.1 Psychological Contract State**

Argyris (1960) first coined the term ‘psychological work contract’ in a qualitative research in a production plant. The terminology was used to describe a relationship founded on an avowed understanding between foremen and workers which led to reciprocation in kind and high production (Argyris, 1960). In another qualitative study by Levinson, Price, Munden, Mandl, and Solley (1962) conceptualization of the PC was introduced. They described the construct as mutual expectations based on parties’ needs but which they are dimly aware (Levinson et.al.).

According to Schein (1980), as cited by Roehling, (1997) mutual expectations between parties in a relationship arise from their inner needs, learned from others, traditions and norms, past experiences and so on. The first quantitative study to assess the PC concept was by Jurek (1968) and the content was based on the expectations arising from six motivator and nine hygiene job factors described by Herzberg, Mausner, and Synderman (1959). The subsequent studies on PC construct have come up with different definitions and various measurements (Del Campo, 2007). The researchers have paid little or no explicit consideration of each other’s competing views on the construct (Del Campo, 2007). Presently, the usage of the terminology has been taken way out of its original context (Cullinane, & Dundon, 2006: Del Campo, 2007). Academic reviews have shown that the concept is facing both conceptual and operational challenges due to lack of construct clarity and validity (Guest, 1998a, b; Rousseau, 1998). Suddaby (2010) stated that construct clarity requires (i) a definition as a bare minimum, (ii) delineating the scope conditions under which the construct will or will not apply, (iii) showing the semantic relationship to other related constructs and also (iv) demonstrate some degree of coherence.

The notion of psychological contract has not been distinctively contrasted to that of a contract as conventionally established in law, economics and sociology. The distinction between a contract and the PC is the mental phenomena that a promise induces. The term promise serves within the framework theories of contract in law, speech act and social psychology. Hence the meaning and definition of PC can be derived through articulate understanding (Newman, 2010) and knowledge blending (Bruner, 1960) of theories of contract, speech (communicative) act and social psychology.

Socially the term 'contract' is a promise (Samek, 1965) where dyads assume a moral obligation, in consistent with the theory of dissonance avoidance (Festinger, 1957). Agreement is exchange of promises which prostrates a negotiation where the dyads assume a responsibility. In law, a contract as promise is a classical school of thought while a contract as an agreement is a reliance school of thought (Raz, 1981).

Jaffey (1977) stated that in the case of classical school, a contract is unilateral and doctrine of consideration is given very little regard. In case of the reliance school, a contract is a bilateral relationship and the consideration/bargain is the basic fabric (Jaffey, 1977). In both schools of thought, the concept of 'promise' is the exemplar unit of a contract. However, this does not reduce an agreement to the concept of promise since both arouse different expectations (Samek, 1965). Indeed, whereas breach of agreement invokes remedy, breach of promise invokes affection and behavior validation in reciprocity by primarily compromising trust and loyalty.

In speech act theory a promise is the performative act of co-missive nature (Austin, 1960; Searle, 1969) or a communicative action, (Habermas, 1981). In social psychology, this is a dyadic relationship where one having a normative power and effect adopts and satisfies desire/need of the referent other (Castelfranchi & Guerini, 2006) within a latency interval. Searle (1969) classified a promise as an illocutionary act which from perspective of the speaker is an overt act. However, a promise has a covert dimension of a mental effect on party to whom intention is directed. It arouses promissory expectations which in the latency interval evolve to anticipations in mind of the dyads (Lester, 2011). At the end of latency interval, a state is realized which is referred to as the psychological contract state (PC state). This state is expressed by feelings of satisfaction of the person to whom the promise was made or from the perspective of the person making the promise- a sense of fulfillment (Njenga, 2017a).

Therefore, PC definition hypothetically is a dyadic relational experience whose basic attributes are implicit or explicit communicative actions of adopting desires or goals of referent other with the intention to satisfy within a latency time interval thereby arousing expectations and anticipations on the premises of trust and loyalty (Njenga, 2017a,b). Alternatively, PC is an implicit or explicit promissory act that activates expectations and anticipations of another person or party based on trust and loyalty. As Roehling (1997) observed, such a definition can be generalized to a variety of other relationships like: the employer-employee, politician-voter, teacher-pupil just to mention a few. In the case of workplace, the employer seeks to identify and satisfy his employees' desires/needs as a strategy for engagement, morale and motivation. The two-factor theory empirical studies persistently confirm the desires which if fulfilled, enable the employees to be motivated and satisfied (Herzberg et al., 1959; Jurek, 1968). The factors constitute of working conditions and nature of work, depicted in Appendix 7, which when satisfied will allow the employees to reciprocate in their work performance. These factors are the workplace relevant scope conditions that will constitute PC content in this study.

### **1.1.2 Employee Outcomes**

The imperative of promise making and reliance thereof is on the premise that; (1) there is a relationship founded on tenets of mutual loyalty and trust;(2) the parties have normative commitment and cooperation; (3) the one making the promise has power and effect to deliver; (4) there is either an explicit or implicit performative act whereby one adopts to satisfy the desires/interests/needs or goals of the referent other and; (5) as evidence of reliance thereof one has some aroused expectations. Whenever one sets to satisfy the desires of the other person, there is generated a mental expectation debt. After anticipatory interval, the state of fulfillment of the expectations stimulates feelings of dissonance or consonance (Festinger, 1957). The promisee will either experience satisfaction or dissatisfaction, depending on discrepancy between the fulfillment state and the expectations.

The theory of reciprocity suggests that an action that is felt as either kind or unkind elicits a reciprocal behavioral response (Falk & Fischbacher, 2000). The state of fulfillment of a promise (expectations contingency or PC state) invokes reciprocal attitudes and behavior outcomes. A study by Keith (2011) indicates that trust is an input and outcome of negotiations

and interpretations of the PC. Thus a positive PC is primarily reciprocated by sanctions of reward which predicate trust and loyalty dispositions or the vice versa in case of a negative PC. Furthermore sustained PC state arouses secondary behavior outcomes of normative commitment and cooperation.

Trust is a psychological feeling of passion and pride in a relationship arising from believe that the referent other is reliable and not opportunistic in word, action or decision (Lewicki & Tomlinson, 2003; Robbins & Judge, 2007). At workplace this is a perception of care and concern guaranteed by the employer which makes the employee feel safe. The act of a person recognizing a promise and reliance thereof rouses expectations (PC). This in itself, is a willingness to be culpable of disappointment in event of renegeing. One of the dimensions of trust is honesty and truthfulness. That is what is generally referred to as integrity (Schindler & Thomas, 1993). This implies that trust is severely compromised when a promise is not fulfillment.

Reichheld, Markey and Hopton (2000) observed that trust is an important antecedent of loyalty. Kleinig (2007) defined loyalty as a “practical disposition to persist in an intrinsically valued associational attachment” to secure interests or wellbeing of object of loyalty. In this study, loyalty is a deliberate conduct to support success of an organization with dedication and passion. It involves practical commitment to persistently secure the interests or well-being of the organization other than one’s own. This means the fate of employer becomes bound up with employee thus forming a relationship that allows or disallows loyalties exchange. Both parties in the relationship exhibit faithfulness to a cause with unswerving alliance. The conduct include employee safe face (Robbins & Judge, 2007), feel shame or pride in doings, take risk and bear burdens at one’s own cost for employer (Kleinig, 2007). The employee practical dispositions of loyalty include attendance or absence, stay or quit intensions, in-role performance and organizational citizenship behavior (OCB).

Trust and loyalty form covalent bond that allows attainment of fundamental goals of mutual engagement and exchanges. These in social relationships either allow or disallow evolvement of other secondary behaviors like commitment and cooperation. The concept of commitment in this study is the normative commitment (Allen & Meyer, 1990). That is when person consciously chooses to stay in a relationship and assume own obligations as matter of principle. In other words it is a moral willingness to work for an organization.

The concept of cooperation is defined as volitional engagement with others in goal pursuit as opposed to competition (Business Dictionary, 2012). This is anchored to the idiom that people with similar interests will stick together (Phrases, 2012). In an organization the behavior shows the extent to which employees respect and support each other. Indeed the employees, who are normatively committed, do enjoin into performance solidarity of sorts. And this creates a performance cohesive force at individual and group level. However, the strength of the relationship between PC state and the employee outcomes depends on the dyadic interactions with equity sensitivity of employee and the leadership style of the employer.

### **1.1.3 Employee Equity Sensitivity**

The equity sensitivity concept by Huseman et al. (1985) is an extension of equity theory by Adams (1965). The concept accounts for individual differences in response to perceived inequities in work situations. The theory asserts that people respond to situations of inequity depending on their predispositions regarding the levels of focus on the inputs they give versus the outcome they receive. These predisposition types focus, range from entitled (low input/high outcome), equity balanced (high input/high outcome), benevolents (high input/low outcome), and equity indifferents (low input/low outcome) (King, Miles & Day, 1993; Davison & Bing, 2008). Thus equity sensitivity may predict the attitude-behavior variations of individuals when their expected outcomes or rewards are given or denied (Weathington & Reddock, 2011).

These predisposition types are brought into the work place by the employee which Argyris (1960) alluded to. This posits that, in unfavorable inequity situations benevolent and indifferent types are tolerant due to low focus on their own benefits (King, Miles, & Day, 1963). The two types of equity sensitives may still exhibit trust and loyalty (positive employee outcomes), even in case of PC breach unlike entitled and equity balanced. This means that under the situation of negative PC state (breach/violation), the equity sensitivity type has a moderating effect on its relationship with the primary employee outcomes of trust and loyalty.

### **1.1.4 Leadership Style**

The leader in this case is a manager who directs the processes and is also responsible for the performance. There are two broad leadership categories depending on their orientation. The people oriented or work outcomes oriented (Lewin, 1939; Chu & Kuo, 2012). This means that, a people focus leadership (unlike outcome focus leader) may tend to ensure fulfillment of promises made to the employee or offer explanation of lack of it. Huczynski and Buchanan (2007) citing Stogdill (1950) state that, leadership is an interpersonal process in which one seeks to shape and direct behavior of others for goal attainment.

The argument is that leaders who are people centered tend to adopt the participative leadership with emphasis on empowerment. This type predominantly involves high level of communication and interactions. The situation not only motivates the employee but also offers opportunity for explanation in case of unfulfilled promise (PC breach) and this could bar the employee from reciprocating with low employee outcomes (negative behavior). A study by Bal, Chiaburu, and Jansen, (2010) indicated that the negative relationship between psychological contract breach and work performance was moderated by social exchanges, Thus the relationship was stronger for employees with high social exchange relationship, perceived organizational support, and trust. This is suffice to conclude that people focused leadership style is more likely to diminish perceptions of contract breach by for instance ensuring realistic expectations for the employees.

A people focused leader (democratic) can influence employee outcomes positively. It implies when the promissory expectations are not fulfilled the employee may still exhibit trust, loyalty, commitment and cooperation. As a result the overall performance of the organization may be high despite of PC state. Thus it may be argued that the relationship between the PC state, employee outcome (attitude and behavior) and performance of the organization may depend on the leadership style adopted by the managers. The converse can also be true that an autocratic leadership may influence negatively the PC state, employee outcomes and the firm performance.

### **1.1.5 Organizational Performance**

Organizational performance forms the actual results of an organization as measured against its intended goals and objectives. Thus the organizational performance is a multidimensional theoretical construct (Venkatram & Ramanujam, 1986: Katou & Budhwar, 2007) with multiple indicators. To make water service providers (WSPs) focus on the right parameters and achieve the goals and objectives of the Kenya water resources sector (WASREB), there is need to use a performance system which is applied uniformly. The overriding goals pursued in the system are mainly to ensure efficiency, sustainability and affordability of water service provision. The performance measurement parameter used by WASREB includes: service/water coverage, production efficiency (which the researcher calculated from non-revenue water), drinking water quality (worked out from the percentage of residual chlorine and bacteriological), hours of supply, revenue collection efficiency, operations and maintenance and metering ratio.

The context of this study is public WSPs. The correlation link between PC and organizational performance generally stems from contractarians philosophy that, making and keeping promise has both moral value and utility maximization sense (Habib, 2008). This implies that satisfaction of desires/goals of the employee as promised by the employer engages and motivates one to reciprocate in loyalties exchange including secondary behavior of commitment and cooperation. Thus the assumption is that the PC state of the managers as drivers of work performance is significant predictor of organizational outcomes. This is because managers or heads of departments (HODs) and or sections heads are responsible for attainment of targets by employees they supervise. In this case, the focus is management level employees in WSPs. The dimensions of organizational performance to be applied in this study will be secondary data adopted from WSPs performance analysis reports by WASREB.

### **1.1.6 Water Sector in Kenya**

Kenya has Vision 2030 as its long-term development blueprint. The aim of this strategic plan is to make a better society with high quality of life by transforming it into industrialized middle income county and also ensure attainment of Sustainable Development Goals (SDGs). The goal number six of the SDGs is the provision of clean water and sanitation to all people. At the moment only 1.4 million people are connected to water out of the 46 million Kenyans. According to the SDGs and Poverty Reduction Strategy Paper (PRSP), water service provision is a fundamental objective and a human right. Furthermore, water is also a basic resource for industrial growth which is very scarce in Kenya (WASREB, 2012).

In order to address water scarcity problem Water Act (2002) was developed. Specifically, the Act was to ensure efficiency, sustainability and affordability of water service provision. In order to attain this objective, the Act under philosophy of separation of roles and responsibilities established three separate institutions for policy formulation, regulation and service delivery. The institutional frameworks included Water Service Regulatory Board (WASREB), Water Service Boards (WSBs) and Water Service Providers (WSPs). That is for purpose of regulation, asset development and water service provision respectively. WSPs are the institutions directly in contact with consumers of water and sewerage services provision.

The performance report compiled by WASREB after analyzing the data derived using Water Regulation Information System (WARIS), which is installed and used by all WSBs and WSPs, showed that pioneer water companies posted high performance than older ones. The cause of poor performance in some companies has been attributed to many challenges. For example, there was poor management practices and sifting loyalty by employees (WASREB, 2012). It is posited that pioneer companies are at latency interval stage in the formation of PC. Hence employee outcomes may be favorable in terms of trust, loyalty, commitment and cooperation which in turn influence good performance. Whereas it is posited that the converse is true for poor performers when there is breach of PC. This study seeks to establish management employees' PC state and organizational performance of WSPs and show how the link is influenced by employees' behavior outcome, equity sensitivity and leadership style.

### **1.1.7 Water Service Providers in Kenya**

A Water Service Provider (WSP) in Kenya is a company, non-governmental organization or any other person or organization providing water services. This is done under and in accordance with a license issued by a regulatory board for the service areas defined by the license. WSPs in many instances work as agents of water and sewerage provision currently regulated by Water Services Regulatory Board (WASREB).

The supervision and monitoring of WSPs is directly done by the eight WSBs namely: Athi, Tana, Northern, Coast, Rift Valley, Lake Victoria North and Lake Victoria South Water Services Boards. The WSPs are classified into four categories based on water and sewerage connections as; very large (over 35,000 connections), large (10,000-35000), medium (5000-9999) and small (1-4999). There are 5 very large, 17 large, 15 medium, and 28 small WSPs (WASREB, 2012). That is a total of 100 WSPs all of which form the focus of this study (as shown in Appendix 6).



## **1.2 Research Problem**

The resource based theory is viewed as a fundamental source of sustainable competitive advantage through use of the HR due to its inimitability and contribution of tacit knowledge (Khan et al., 2014; Barney 1986). The nature of HR is such that it is embroiled with social complexity and causal ambiguity (Peteraf, 1993; Prahalad, 1992) which managers have to contend with as they engage and motivate the employees. To resolve such complexities, social exchange theories are applied to demonstrate the semantic relationships among variables and their impact organizational performance (Suddaby, 2010). One of the concepts applied in organizational behavior to help explain these relationships is the PC.

Argyris (1960) coined the term “psychology contract” in a field research found that certain leadership style, a culture was adopted which resulted to the satisfaction of the workers’ psychological contract, high production and low grievances. The term grievance synonyms include, resentment or cynicism or distrust. Thus, low grievance implies presence of trust. Trust is strongly related to other variables; loyalty, commitment and cooperation (Lau & Sook, 1999; Reichheld, Markey & Hopton, 2000; Karia & Ahmad, 2000; Ooi et al., 2006). Argyris (1960) also pointed out the need to identify some personal predispositions (or mentality) which the employees bring with them into the organization. Research has so far demonstrated the moderating role of equity sensitivity in determining the relationship between the PC state of breach and the employee attitudes-behavior (Kickul & Lester, 2001).

The first empirical study showing the relationship between the PC and organizational performance was done by Jurek (1968). The findings of the study indicated that relationship between the two variables was not linear. There are a number of reasons for these results. That is, the researcher ignored the role played by the variables identified by Argyris (1960) in the relationship between the PC state and the high production of the organization. These concepts are namely; leadership style of managers, trust (including the related constructs for of loyalty, commitment and cooperation). Moreover the researcher needed to take into account the moderating role of the personal predispositions like the equity sensitivity of the employees. Therefore it was correct when he stated that the findings were inconclusive because of a third variable effect which the study recommended to be further investigated (Jurek, 1968).

Ever since the two studies (Argyris 1960; Jurek, 1968), research linking PC states to organizational performance have been very rare. Furthermore in case of the two studies, the dimensions of the performance was one instead of taking into account both financial and non-financial dimensions. Moreover after these two classical studies, much of the research works have been to establish PC states (Winter & Jackson 2006) and currently how it relates with certain categories of employees' attitudes and behavior. Other findings show that trust, loyalty and commitment are negatively related to the breach of PC (Atkinson, 2007; McDonald & Makin, 2000; Shapiro & Kessler, 2000; Turnley & Feldman, 1999; Robinson & Rousseau, 1994). It is noteworthy that when a person exercises loyalty, the outcome is the cooperative behavior. The concept of trust, loyalty, commitment and cooperation in this study is what comprise of the employee outcomes. Thus the empirical studies indicate that there is a relationship between the PC state and the employee outcomes.

The quality and efficiency of water and sanitation services given by WSPs are very important to the people's health (well-being), production and cost of living; which in turn have significant impact on social and economic growth in Kenya. Although this was prioritized since independent, it is still a challenge today and will require a paradigm change on how the water utilities are managed (WASREB, 2016). Despite huge investments in infrastructure development, the WSPs are yet to achieve the sustainable development goals (SDG) of equitable access to adequate, safe, affordable drinking water and sanitation. This has been due to a number of problems including loss of water through physical and commercial losses and inabilities of the WSPs to recover their operations and maintenance (OM) costs.

The problem can be addressed by reducing wastage, improving service quality, maximizing on consumer contribution and improving on cash flows (WASREB, 2014). Therefore, the WSPs will need to relook at how they motivate and engage their employees who are the key to achieving these objectives. The KPIs used in measuring performance of WSPs did not provide for how well the HR is managed. The issues of PC state, employee outcomes (attitudes and behavior), equity sensitivity and leadership are ignored and yet they may provide an answer to why over the years the utilities under-performed. Conversely, the current study aims at bridging this gap in the public sector entities which as per the topic of the study has been rarely researched.

It is noteworthy that the concept of PC has been faced with myriads of challenges including the its clarity and validity (Guest, 1998a, b; Rousseau, 1998) which have remained unresolved. These issues have been tackled by developing an operational definition for the PC and also coherently showing its semantic relationship with other variables of interest (Suddaby, 2010) which includes; employee outcomes, equity sensitivity, leadership style and organizational performance. This way it may be confirmed that the construct is a powerful explanatory variable. This study will address the question: is the relationship between psychological contract state and performance of WSPs mediated by employee outcomes and moderated by equity sensitivity and leadership style? This research question incorporates the prepositions of both Argyris (1960) qualitative research and Jurek (1968) empirical study but also factors in a much broader performance criterion in a different context.

### **1.3 Research Objectives**

The overall objective of this study was to establish whether the relationship between psychological contract state and performance of WSPs is mediated by employee outcomes and moderated by equity sensitivity and leadership style. The specific objectives are to:

- (i) Determine the relationship between psychological contract state and organizational performance.
- (ii) Establish the mediating effect of employee outcomes on the relationship between psychological contract state and organizational performance.
- (iii) Determine the moderating influence of equity sensitivity on the relationship between psychological contract state and organizational performance.
- (iv) Establish the moderating effect of leadership style on the relationship between psychological contract state and organizational performance.
- (v) Determine the combined effect of psychological contract state, employee outcomes, equity sensitivity and leadership style on organizational performance.

#### **1.4 Value of the Study**

The value of this research was to contribute to PC construct, testing and research so as allow its retention as major analytical device (Guest, 1998a) in explaining HRM. By so doing it shall also enable us build a more cumulative body of knowledge that will have key implications for both theory and practice. This means that the academics and practitioners will be able to search for PC state posteriori factors contributing to matters affecting employees and behavioral outcomes. These outcomes can now be observed in a more logical anticipated order of influence on organizational performance.

In the case of practitioners, their dilemma is how to sustainably make the employee fully engaged and motivated enough, so as to attain the organizational goals. This study allows practitioners to take organizational audit of promissory communicative acts predicated by employees' payoff promissory expectations. This will enable observation of the impact of PC state on organizational performance through attitude-behavior repertoires in form of trust, loyalty, commitment and cooperation (employee outcomes) which however depends on equity sensitivity and leadership style.

WSPs have a crucial role in provision of water which is a critical natural resource in the attainment of Kenya Vision 2030 and SDGs. The WSPs also have collaborative role in the flagship projects and an overall impact on the economic growth. This means that WSPs that leverage on employee's PC state and its posteriori allay of effects on performance may act as drivers of economic growth.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter gives an analysis of the theories guiding the study, literature review and previous research which are pertinent to the variables indicated in the conceptual framework figure 2.1. The PC content dimension is also introduced and discussed. A summary of empirical studies on the variables, their findings and the gaps to be addressed are presented. Finally, the chapter outlines the conceptual model and the hypotheses to be tested. The conceptual framework depicts the relationship between the study variables: PC state, employee outcomes, equity sensitivity, leadership style and organizational performance.

#### **2.2 Theoretical Foundation of the Study**

The approach to this study is based on resource- based view of the firm. However resource-based theory in this thesis is expanded by linking it to social exchange theories. Social exchange theories (SET) in this study are used as a frame of reference which provides convergence for studying the concept of PC, employee outcomes (attitudes-behavior) as well as concepts of equity sensitivity and leadership style.

##### **2.2.1 Resource Based Theory**

The thesis is anchored to resource based theory (RBT) for sustainable competitive advantage with main focus on human resource (HR) as one of the firm's assets. Human resource is a basic source of pecuniary profit of the firm and the competitive advantage (Khan et al., 2014). The assumption is that HR is not only valuable, not substitutable and rare (Barney, 1986) but also inimitable- hard to perfectly duplicate (Peteraf, 1993). Therefore HR is arguably a critical factor to conception and effective implementation of a firm's operational strategy (Barney, 1991). The HR also offers an organization the ability to perform internal business activities better than the competitors.

The reason why HR cannot be perfectly duplicated is because of the social complexity (Prahalad, 1992) and causal ambiguity (Peteraf, 1993) as well as the tacit knowledge associated with it. A study by Al-Rfou and Trawneh (2009) showed that there is a strong linkage between motivation of employees and the competitive advantage. Furthermore

according to Dessler (1993) commitment and cooperation are the source of competitive advantage and hence critical to performance of an organization (Grant, 1991). This has far reaching implications since RBT of the firm need to be expanded by blending it with the knowledge of social behavior under the social exchange theories (SET).

In an organization there are social exchange acts or interactions which generate promise communicative actions (Habermas, 1981) also known as performative speech acts (Austin, 1960; Searle, 1969). The promissory acts either actual or implied (tacit) do rouse expectations of the promisee hitherto referred as psychological contracts. The act of promising is a communicative act whereby a party in a volitional relationship offers to meet the desires or needs of the referent other. Thus the promise fulfillment state is psychologically rewarding or punishing and can influence the feelings of the promisee. Thus the PC concept is a form of instrumentation behavior. The logic is to attain competitive advantage by taking up and satisfying the desires or needs of the employees. Then in conformity with the theories of motivation and reciprocity, the employees act in the interest of the organization with increased trust, loyalty, commitment and cooperation.

### **2.2.2 Social Exchange Theory**

Social exchange theory (SET) refers to the exchanges that generate obligations and involves a series of interactions occurring among dyad or social groups (Emerson, 1976). It has been explained that SET is not a theory but frame of reference through which other theories can be discussed (Cropanzano & Mitchell, 2005; Emerson, 1976). This view was supported by Guest (1998a) who posited that the concept of PC could theoretically be explained from the perspective of SET.

Psychological contract converge with SET on the basis of the social interactions involved. An employment relation is a volitional interdependent exchange (Blau, 1964a) where parties' motive is to satisfy each desires or needs in an optimal way. The parties through interactions engage and motivate each other by realizing their obligations and reciprocating each other efforts. This process overtime generate a high quality relationship (Emerson, 1976). Such a relationship is defined by trust, loyalty and commitment to each other for mutual benefits (Cropanzano & Mitchell, 2005). In pursuant of this employers do adopt the desires (or needs) of the employees with view to satisfy them so as to solidify the reciprocal employees' attitudes-behavior outcomes namely trust, loyalty, commitment and cooperation.

Homans (1961, cited by Emerson, 1976) discussed SET from perspective of psychology of instrumental behavior (reinforcement psychology). Behavior theory is based on behavioral learning theory specifically on operant conditioning. Operant conditioning stipulates that an individual who receives reinforcement, a positive consequence for behavior, is likely to perform the behavior again under similar circumstances (Skinner, 1953). In other words, reinforcement can motivate behavior which is referred to as extrinsic motivation. This means engaging in an activity to obtain an outcome that is distinct from the activity itself. However, there is also intrinsic motivation where one engages in an activity when the reward is the activity itself (for example playing video games). The fulfillment of promises made to the employees, conditions them to reciprocate in kind by completing their employment obligation in return.

It is argued here that, PC emanate from a relationship which is a bidirectional transaction involving promise making and the reliance thereof. The promise making and fulfilling is an intrinsic (covert) motivation to express own trust and loyalty worth for creating a quality relationship. To whom the promise is intended there is an expectation, the satisfaction of which primarily exudates the trust and loyalty attitudes in reciprocity and other secondary behavioral consequences (commitment and cooperation). The fulfillment of promise, from perspective of promisor, is an extrinsic (overt) reinforcement or a post operant conditioning of the attitudes and behavior whereby one affirms his/her trustworthiness and loyalty to others.

Other than reciprocity at the heart of social exchange is also the theory of equity. That is according to Homans (1961), cited by Cropanzano and Mitchell, (2005), individuals are satisfied in situations where they perceive receiving benefits from a relationship closely equal to what they are putting into the relationship. However, research has shown that this is not always the case since this depends on the person's characteristics. There are different individual dispositions (equity sensitivities) like entitled, equity balanced, benevolent, and equity indifferent (King et al., 1993; Davison & Bing, 2008).

The other concept associated with the social exchange is leadership (Liden, Sparrowe, & Wayne, 1997). The general assumption of Leadership theories is that, leaders, influence performance at some macro level. This is done by influencing individuals and groups to accomplish organizational goals. This has been confirmed through research that leaders can significantly influence individual, group and organizational performance (Gerstner & Day, 1997). There are various categories of leadership approach as trait, behaviors, styles and more recently leader-member exchange approach (Liden et al., 1997). In a workplace, leadership style can either be work/task oriented or people focused. That is autocratic or democratic categories respectively. The autocratic tend to drive people to attain organizational goals, whereas democratic focuses more on the people's satisfaction and motivation to perform the organizational goal. The democratic leadership has more interpersonal relations (participation). It is therefore posited that where a democratic leadership is involved, a breach of PC may still be reciprocated with a positive employee outcomes. But for an autocratic leadership the converse will be true.

In summary the underpinning of this study is that, RBT as a basis for attaining competitive advantage may be explained by inimitability of HR due to its social complexity and causal ambiguity. The second assumption is that, SET holds the key to ensuring that the HR remains engaged and motivated so as to gain sustainable competitive advantage. To achieve this, the fulfillment of the promissory expectations (PC state) of the employees is required to arouse the right attitudes and behavior that supports the organizational performance. However these assumptions also depend on the equity sensitivity predisposition of the employees and the leadership approach of the management.

### **2.3 Psychological Contract State and Organizational Performance**

In law the concept of contract has been pursued from two different viewfinders' positions. That is the classical school and the reliance school. The classical school takes a contract as a promise whereas the reliance school considers it as an agreement (Raz, 1981). A contract as a promise from America standpoint is 'unilateral' (Samek, 1965) which helps us understand Rousseau's and her followers view on PC (Rousseau, 1990). In case of contract as an agreement it is a negotiation between two parties. The parties rely on each other responsibility to keep the promise (Raz, 1981) or else remedy will be instituted. The reliance school in PC debate supports the dyadic view pursued by Guest (1998a).



Whereas the classical school assume obligation to fulfill promise, the reliance school assumes responsibility as stipulated in the agreement (exchange of promises). In Classical paradigm contract is unilateral and hence the doctrine of consideration is given very little regard. For reliance school contract is a bilateral relationship which implies that consideration/bargain is the basic fabric (Jaffey, 1977). In both instances 'promise' is the exemplar unit of a contract. However according to Samek (1965) this does not reduce agreement to concept of promise since each arouses different expectations.

From a social perspective a 'promise' is characterized by a form of a communicative or performative act where one adopts to satisfy the need (desire/goal) of referent other (Castelfranchi & Guerini, 2006). In linguistic promise is performative act (Austin, 1960: Searle, 1969) or according to a modern theory by Habermas (1981) a communicative action. Searle (1969) introduced the aspect of the illocutionary act which focuses on the speaker and does not attend to the covert effect the speech has on the listener. The speech act of promising may either be explicit or implicit. It is posited that promissory communicative act elucidate expectations on the dyad. That is, the person making the promise psychologically puts an expectation on oneself to execute and at the same time raises the expectation of another person. Lester (2011) states that, expectation will evolve to anticipations.

The latency interval before fulfillment of a promise marks the anticipatory period during which one is neither satisfied nor dissatisfied. The anticipation is characterized by emotions varying from mild excitement, desire, anxiety to apathy, distress to frustration and anger (Huron, 2006). In this study PC definition is founded on this argument. Therefore PC constitutes a process of a conscious experience involving dyadic interactive understanding (Argyris, 1960) of contractual nature. PC is not visible but supposed. The term is a hypothetical explanatory variable that explains a conscious experience which supposes systematic processes that are not among the observed (Boring, 1923).

In employment relationship the creation of PC stems from interactions involving performative acts or communicative actions of promissory nature. The communicative actions can be either implicit or explicit coming about through recruitment processes, job orientation, organizational culture, training, HR policies and practices, administration and strategy implementation etcetera. The essence of the PC is to engage and motivate employees; to achieve and maintain their job satisfaction and reciprocate in the contextual performance (Njenga, 2017a, b).

The promise making requires a person to offer to meet the desires or needs of the referent other in the relationship. The axiom is that the desires are mutually understood and the dyads have mental expectation about the obligations required to be fulfilled. From the perspective of the party making the promise, he/she place on self an obligation to fulfill; and on the party to whom the promise is made, a mental expectation is roused with anticipation of satisfaction (Njenga, 2017a,b).

At work environment the employee desires are categorized as motivators and hygiene factors; making one satisfied (Locke, 1969) and maintaining satisfaction respectively. Therefore the content of PC in an employment relation is founded on Herzberg et al. two factor theory comprising of both intrinsic and extrinsic needs of the employees illustrated in Appendixes 5. These factors form the scope conditions for the purpose of this study.

Empirical evidence invalidates the Herzberg's two factor theory (Dunnette, Campbell & Hakel, 1967; House & Wigdor, ud.). However it has proven its value and stood the test of time; integrating itself into basic points of view about managing people and proceeded to give ideas for generations of scholars (Stello, 1998). Furthermore research has shown that in an organization there are three distinct groups of people; the benevolent, sensitive and entitle with different needs preference. The benevolent and entitled have preference for intrinsic and extrinsic needs respectively, whereas sensitive prefer both (Weathington, & Reddock, 2011; Kickul & Lester, 2001). The two factor scope of PC content is a major departure from suggestion by Rousseau (1990), who is credited with popularization of PC concept. The two factors need to be taken into consideration to ensure inclusivity of all equity sensitivity predispositions in the organization (Njenga, 2017a).

The foundations of this study is the field study observations by Argyris (1960) who hypothesized that there was a link between PC fulfillment, high production and low grievances under certain culture of leadership adopted by supervisors. In a research by Jurek (1968, cited by Roehling, 1997) where the content of the PC was structured around the Herzberg's two factor, the results did not confirmed that the relationship between PC state and performance is linear. Different from the previous study (Jurek, 1968) is the context, PC content and the broader criterion. However it still can be demonstrated that the PC state and organizational performance are directly related. Therefore it is hypothesized that:

*H1: There is a significant relationship between psychological contract state and organizational performance*

Jurek (1968) focused on studying PC state and organizational performance based on sales. The results of the study showed that, there was no linear linkage between PC state and performance. This led to the conclusion that this hypothesized link was dependent on a third variable effect (Jurek, 1968). Indeed even for the link between PC state and work performance Turnley et al. (2003) study found a weak support. It is posited that, PC state influence on organizational performance is through employee outcomes (Coyle-Shapiro & Kessler, 2000; Turnley et al., 2003; Bal et al., 2010) depending on employees' equity sensitivity predisposition (Kickul & Lester, 2001).

#### **2.4 Psychological Contract State and Employee Outcomes**

The variable of employee outcomes was a composite of several concepts that are theoretically related. Among the variables of concern in Argyris (1960) field study was the low grievances. The term grievance has synonyms including resentment, cynicism and distrust. Ideally the low grievance phenomenon observed in that the early study imply presence of the attitude of trust.

In employment relations the dyads decision to enter into the union is a rational and volitional choice. Such volitional relationships are founded on assumption that the parties are culpable of mutual trust and loyalty in accordance with the theory of reciprocity norm (Falk & Fischbacher, 2000) and moral theory (Habib, 2008). The attitude of trust has been explained by Reichheld, Markey and Hopton, (2000) as a significant antecedent of loyalty. As trust and loyalty thrives the dyads feel obligated to fulfill the each other desires or goals as a matter of principle or 'a personal fit' to duty. In this case employees express a moral behavior of commitment to their organization as a norm. Thus in this thesis commitment is operationalize in normative sense and not the affection or calculative commitments (Allen & Meyer, 1990). The theoretical argument is that, when exercising loyalty, persistent commitment is invoked to secure the interests of the object of loyalty (Kleinig, 2007).

In regards to the cooperative behavior consider Benjamin Jowett's 1856 translation version of Plato's Republic: "Men of my age flock together; we are birds of a feather, as the old proverb says" (Phrases, 2012). The idiom means that people with similar interests will stick together.

Thus employees with normative commitment are likely to voluntarily exhibit cooperation. Cooperation, in this case is a volitional engagement with others in a mutually beneficial exchange or goal pursuit as opposed to competition (Business Dictionary, 2012). The commitment attitude and cooperation behavior is the cohesion force which enables performance of duty and fulfillment of the mission of the organization both at individual and group level. Deer (2010), unpublished study, stated that commitment has a role in sustaining cooperation and overcoming free-riding incentives. Moreover when employees exercise loyalty to the organization, they are practically disposed to engage in a cooperative behavior (Kleinig, 2007). Cooperation is essential because as Lowe (1998) observed, in a dynamic business environment, a high trust culture among employees provides an organization with requisite flexibility to respond without behavioral resistance to change.

The empirical evidence to support the theoretical argument has been provided by a study by in customer relations (Bricci, Fragata & Antunes, 2016) which showed that trust has positive and direct effect on commitment whereas commitment has positive direct effect on loyalty. Similarly research indicates that trust does encourage long term relationship orientation or commitment (Ganesan, 1994; Zhao & Cavusgil, 2006). Further studies have demonstrated trust as a significant predictor of both affective, continuance and normative commitment (Karia & Ahmad, 2000; Ooi et al., 2006). A study in marketing also indicated that trust in a brand is positively related to brand loyalty (Lau & Sook, 1999). These studies point to one single fact that, trust, loyalty, commitment all have high consistent relations and accordingly have correspondence in prediction. Hence the employee outcomes variable comprises of trust, loyalty, commitment and cooperation (attitude and behavior).

The question that ringer in the mind is how this components of attitudes and behaviors relate to PC? Holtgraves, (2008) stated that the principle of making and keeping a promise has primary overarching objective of fostering trust and loyalty (Holtgraves, 2008). The motivation for making a promise is an act expressing benevolence and loyalty concerns, in anticipation of the reciprocity (Kleinig, 2007). The motivation for promise reliance is the propensity to trust in expectation that there shall be no renegeing (Mayer et al., 1995; Dirks & Ferrin, 2002; Sollner, Hoffmann, Hirdes, Ruda Kova, Leimeister & Leimeister, 2010). Thus whenever promissory expectations are fulfilled trust is affirmed and also attracts loyalty paybacks. Otherwise a situation to the contrary erodes trust and deters loyalty payback.

An empirical study demonstrated that trust was an input and outcome of negotiations and interpretations of the PC (Keith, 2011). A study also showed that, although there was no causal relationship and direction indicated, there is a negative relationship between trust and breach of PC (Robinson & Rousseau, 1994; Atkinson, 2007). Another study demonstrated that the breach of PC is negatively correlated to loyalty (Turnley & Feldman, 1999). The results of a study by Shapiro and Kessler (2000) showed that breach of PC has negative effect on employees' commitment and their willingness to engage in OCB. Similarly the study was collaborated through a research by McDonald and Makin, (2000) which indicated that violation of PC was negatively related to organizational commitment. Conway & Coyle-Shapiro (2012) stated that, "...employees whose psychological contracts have been breached are most likely to withhold those behaviors that benefit the organization as a whole". An empirical study showed that by there was a relationship between fair treatment of people and strong reciprocity to volitional cooperation (Fehr, Fischbacher & Gächter, 2002). Therefore breach of PC may negatively influence cooperative behavior among employees. However, studies that consider the composite of these variables together are very rare. In summary, the studies mentioned demonstrate that a PC state of employees has significant impact on employee outcomes comprising of trust, loyalty, commitment and cooperation.

Hence with respect to hypothesis one (H1) it may be posited that:

*H2: The relationship between psychological contract state and organizational performance is mediated by employee outcomes*

## **2.5 Psychological Contract State, Employee outcomes and Equity Sensitivity**

The concept of equity sensitivity can be explained as the level of tolerance to inequity during transactions in a relationship. There are several distinct typologies depending on inequity tolerance on the basis of low and high focus either on what a person contribute to a relationship (inputs) or what he/she get in return (outcome /output) (Adams, 1965). There those people who care for what they give in relationship than what they get in return known as the benevolent and indifferent (Huseman, Hatfield & Miles, 1985; Davison & Bing, 2008). Their focus is high on inputs and low focus on outputs. Studies indicate they also have high preference for motivating (intrinsic/psychological) factors like sense of accomplishment, doing meaningful work, doing challenging work, a feeling of personal worth (recognition), and a feeling of achievement. These factors have capacity to increase job satisfaction (Weathington, & Reddock, 2011; King et al., 1993).

On the opposite extreme to benevolent are the entitled. Their concern is to get more than the inputs into a relationship. The entitled focus is low on inputs but high on outputs. This group has preference for hygiene (extrinsic) factors like policy and administration, supervision, salary, interpersonal relations and working conditions. These factors help maintain satisfaction in workplace. The middle group is the equity-balance or sensitive. Their interest is on the inputs and outcomes ratios to match the other peoples' ratios. The sensitive appears to value both intrinsic and extrinsic factors equally (Weathington, & Reddock, 2011; Kickul & Lester, 2001).

This theoretical argument suggests that there is a similarity between the outcome preference of benevolent and intrinsic factors, as well as between the outcome preference of entitled and extrinsic factors. This implies that the equity sensitivity typology overlaps with motivation-hygiene theory (Herzberg, 1966). This has far reaching implication on PC content which should contain both motivators to increase employee satisfaction and hygiene factors to maintain the job satisfaction.

Justice demands all contracts including the PC once created be executed. When the promissory expectations (PC) are fulfilled employees perceive that they are being treated fairly by their organization. This is what is referred to as organizational justice (Greenberg, 1987). A study by Blakely, Andrew and Moorman, (2007) demonstrated that benevolent outperform entitled on OCB when the organizational justice low or high. Furthermore, another study showed that under negative PC state (PC breach) entitled express stronger negative reaction and also engage in more deviant acts than benevolent (Restubog, Bordia, & Tang, 2007). These studies provide evidence about equity sensitivity as a moderator in the relationship between PC state and employee outcomes (attitudes and behavior) and by extension the organizational performance. Therefore the hypothesis three is as follows:

*H3: The effect of psychological contract state on organizational performance through employee outcomes depend on the employee equity sensitivity disposition*

## **2.6 Psychological Contract State, Employee Outcomes, Leadership Style and Organizational Performance**

Bal et al., (2010) study confirmed that the negative relationship between psychological contract breach and work performance was moderated by social exchanges. The relationship was stronger for employees with high social exchange relationship, perceived organizational support, and trust. A people focused leadership style may attenuate negative employee behavior outcome associated with PC breach. This is because such a leader is able to diminish perceptions of contract through communication to ensure realistic expectations.

The explanation is that democratic style of leadership which is characterized by more participative role, interactions and high morale may in situations of PC breach or mitigate against negative employee outcomes. Rousseau and Tijoriwala (2000) research demonstrated that empowerment such as provided for by democratic leadership reduces impact on PC breach. This dual moderation effect has so far not been researched on in context of PC state, employee outcomes and organizational performance relationship. Hence may be hypothesized as follows:

*H4: The influence of PC state on organizational performance is moderated by leadership style of the management*

## **2.7 Psychological Contract State, Employee Outcomes, Equity Sensitivity, Leadership Style and Performance**

With respect to distinct PC operational definitions adopted by researchers, the theory and research has shown that PC state has influence on trust and loyalty. Research findings indicate that PC breach is negatively correlated to trust and loyalty (Robinson & Rousseau, 1994; Turnley & Feldman, 1999). While McDonald and Makin, (2000) indicate that PC violation is negatively related to organizational commitment, Conway & Coyle-Shapiro (2012) argue that, “employees whose psychological contracts have been breached are most likely to withhold those behaviors that benefit the organization as a whole.” Elsewhere, Equity sensitivity has been found to moderate relationship between perceived distributive organizational justice with civic virtue and sportsmanship (Golparvar & Javadian, 2012). Civic virtue and sportsmanship are sub-elements of loyalty and commitment in the current study’s employee outcomes variable.

Thus, theoretically, the breach of PC could decrease employee contributions toward the organization and thereby, in the long run, have a negative impact on the firm's bottom line. This line of thought advances the theory that impact of PC state on the organization is through the attitude and the behavior of employees. This could be supported by Argyris (1960) observation that there was a relationship among PC, low grievances and high production. However, a quantitative study by Jurek (1968), indicated that the relationship between PC state and sales performance was none linear. This could perhaps be associated with the fact that he did not consider probable combinations of attitudes and behaviors and the fact that these too could be moderated by concepts like the equity sensitivity. So Jurek (1968) proposed a third variable effect as a gap requiring to be researched upon. In the current study, both the employee outcomes (trust, loyalty, commitment and cooperation) and the equity sensitivity (as moderator) were factored in the research.

Chu and Kuo (2012) demonstrated that leadership style has a significant influence on the PC state. Research has shown that empowerment such as provided for by democratic leadership reduces the impact of PC breach (Rousseau & Tijoriwala, 2000). Hence, democratic leadership style may attenuate the negative employee attitude-behavior outcome caused by the breach of PC. This brings into focus the issue of whether, in presence of PC breach, does leadership style modify employee outcomes? Democratic leadership style as characterized by more participative role, interactions and high morale. The study sought the explanation as to whether it does modify the employee outcomes in the context of breach of PC. Since Jurek (1968) there has been no attempt to link PC state and dimensions of the firm's performance. This study posited that there is an additive influence of the PC state, employee outcomes, equity sensitivity and the leadership style on organizational performance.

Moreover, studies have not correlated the relationship between PC and organizational performance. Organizational performance is defined as the actual results of an organization measured against the goals of the organization. In the Kenyan public sector, the goal and objectives against which to measure performance are stipulated in the WASREB annual performance analysis reports on WSPs. In this thesis, it is posited that the organizational performance is a function of PC state, employee outcomes, equity sensitivity and the leadership style. Therefore it can be hypothesized that:

*H5: The joint effect of psychological contract state, employee outcomes, equity sensitivity and leadership style is greater than their individual effects on organizational performance*



## **2.8 Research Gaps**

In a field research by Argyris (1960) an observation was made leading to the proposition that there existed relationship among leadership style, high production, low grievances and psychological work contract. The knowledge gap is that empirical studies linking all these variables together are very rare. An empirical study by Jurek (1968) on the link between PC state of salesmen of laundry and dry cleaning companies and performance established no linear relationship. The gap in knowledge was the omission of employee outcomes (low grievances), leadership style and employee predispositions (equity sensitivity) which earlier on Argyris (1960) had proposed. The current study has coherently conceptualized the relationships among these variables and developed respective hypotheses to be tested (as per figure 2.1).

The bulk of contemporary studies have been about establishing PC states (Winter & Jackson, 2006), and often how it relates to sets of attitudes and behavior (Bal, et al. 2010; Turnley et al., 2003; Coyle-Shapiro & Kessler, 2000). This study has conceptually unbundled low grievances by disaggregating it in terms of trust, loyalty, commitment and cooperation (Bricci, et al. 2016; Holtgraves, 2008; Fehr, et al. 2002).

There has been also disagreement among researchers on appropriate operationalization of the concept of PC, the definition and its content (Guest, 1998ab; Rousseau, 1998). This study has specified a parsimonious definition for the PC and its content structured around Herzberg's two factor theory (Herzberg, 1966). The PC content adopted for this study is the appropriate as it caters for all the typologies of equity sensitivity in a workplace (Weathington, & Reddock, 2011; Kickul & Lester, 2001; King et al., 1993).

The main knowledge gap of the concept of PC is the lack of clarity and validity (Guest, 1998ab). This study has bridged this gap by developing a PC operational definition, specifying the PC's content as the scope condition, empirically demonstrating the semantic relationship with other constructs (employee outcomes, equity sensitivity, leadership and performance) in the horizon (Suddaby, 2010). At same time this has be done with a reasonable degree of coherence as summarized in figure 2.1. In regard to validity the PC had 0.949 Cronbach's Alpha (see table 3.2).

**Table 2.1: Summary of Literature and Knowledge Gaps**

Author (s)	Focus of the Study	Main Findings	Knowledge Gaps	Focus of current study
Argyris (1960)	Qualitative study whose observations led to proposition indicating the existence of association of leadership with PC State, high production, low grievances in a manufacturing organization	<ul style="list-style-type: none"> <li>❖ It was proposed that under certain leadership style (Lazier frère) relationship existed among variables of PC state, high production and low grievances</li> <li>❖ However the direction of the relationship was not indicated.</li> <li>❖ And there was also uncertainty about the role of employee predispositions (for example equity sensitivity)</li> </ul>	<ul style="list-style-type: none"> <li>❖ The need to establish how leadership style, PC state, low grievance and organizational performance are specifically related to each other</li> <li>❖ Explore the role employees' predispositions (for example equity sensitivity as well as</li> <li>❖ The need to identify the appropriate content of the PC</li> <li>❖ Unbundle low grievances by disaggregating it in terms of attitude/behavior outcomes</li> </ul>	<p>To theoretically show and then empirically demonstrate the relationship between</p> <ul style="list-style-type: none"> <li>❖ PC state and organizational performance</li> <li>❖ How employee outcomes (low grievances or trust, loyalty, commitment and cooperation) mediate the above relationship and</li> <li>❖ Establish the moderating role of both equity sensitivity and leadership style</li> <li>❖ Finally the joint effect of all the variables of this study</li> </ul>
Jurek (1968)	Quantitative study of the relationship between PC state and performance of salesmen in laundry and dry cleaning companies	No linear relationship existed between PC state and performance of the salesmen	<ul style="list-style-type: none"> <li>❖ The study proposed exploration of third variable effect.</li> <li>❖ The study had not factored the role of employee outcomes, the Equity Sensitivity predisposition and Leadership Style</li> </ul>	<p>Establish the role of following:</p> <ul style="list-style-type: none"> <li>❖ Employee outcomes (mediator)</li> <li>❖ Equity Sensitivity and leadership style as moderators.</li> <li>❖ The choice of criterion with more KPIs and different context</li> </ul>
Turnley, W. H. & Feldman, D. C. (2003)	The relationships between violations of employees' PC and their exit, voice, loyalty, and neglect behaviors	<ul style="list-style-type: none"> <li>❖ PC violations result in decreased levels of loyalty to the organization</li> <li>❖ PC violations result in increased levels of exit (no commitment), voice, and neglect behaviors (none cooperation)</li> </ul>	How the relationship between PC violation and the corresponding attitude-behavior outcomes (loyalty, commitment and cooperation) impact on the organizational performance	To show how the overall relationship between PC state and employee outcomes in terms of attitudes and behavior finally impact on organizational performance
Kickul & Lester (2001)	The moderating role of equity sensitivity in the relationship between PC breach and the attitudes and behaviors of employees	<ul style="list-style-type: none"> <li>❖ The proposition was supported</li> <li>❖ The benevolent behavior is influenced negatively when PC on intrinsic needs is breached whereas the entitled behavior is influenced negatively when PC on extrinsic need is breached</li> </ul>	The proposition was supported. However this study differ because it is hypothesized that equity sensitivity moderate the relationship between PC state and organizational performance	<ul style="list-style-type: none"> <li>❖ The moderating role of the equity sensitivity on The relationship between PC state and organizational performance</li> <li>❖ Ensure equilibrium of the content of PC by including both motivators and hygiene factors</li> </ul>

**Table 2.1: Continued**

Author (s)	Focus of the Study	Main Findings	Knowledge Gaps	Focus of current study
Chu H. C. & Fu C. J., (2005)	The relationship between the leadership styles of managers and employee psychological contracts	The employees' perception of leadership style significantly affected satisfaction levels of employee psychological contract	The need to demonstrate how the interaction of leadership style influence the relationship between PC state and employee outcomes together with organizational performance	The establish the moderating effect of leadership in the relationship between PC state and organizational performance
(Weathington & Jones, (2006)	This study evaluated Equity Sensitivity (ES) as an explanation for individual differences in employee valuation and satisfaction with fringe benefits	The employees assign differing amounts of importance on different benefits due equity sensitivity predisposition types	<ul style="list-style-type: none"> <li>❖ The two typology of equity sensitivity have preference for different types workplace related factors.</li> <li>❖ The motivators appeal to benevolent and hygiene factors appeal to sensitive and entitled (overlap between equity sensitivity and motivators-hygiene theory)</li> <li>❖ Therefore the scope of the PC content must have equilibrium of the two factors which most PC studies have not considered</li> </ul>	The PC content has been structured around the Herzberg two factor (motivators and hygiene factors aligned to benevolent and sensitive/entitled respectively) – while culture is held constant
Restubog, Bordia, & Tang, (2007)	Effects of psychological contract breach on several employee outcomes	<ul style="list-style-type: none"> <li>a) PC breach was related to all employee outcomes.</li> <li>b) Equity sensitivity and PC breach interacted in predicting employee outcomes</li> </ul>	The overall impact of moderation by equity sensitivity on the link between PC state and organization performance	To find out whether the equity sensitivity has moderation role in the relationship between PC state and organizational performance
Chu & Kuo (2012)	Leadership style and institutional climate impacts on PC	Leadership types were favorable in creating relational and satisfied PC but to varying extent. The leadership style was found to predictor of PC state	Need to find out whether leadership style has a moderation role in the relationship between PC state and organizational performance	To study whether the leadership style has moderation role in the relationship between PC state and organizational performance

Source: Researcher (2016)

## 2.9 Conceptual Framework

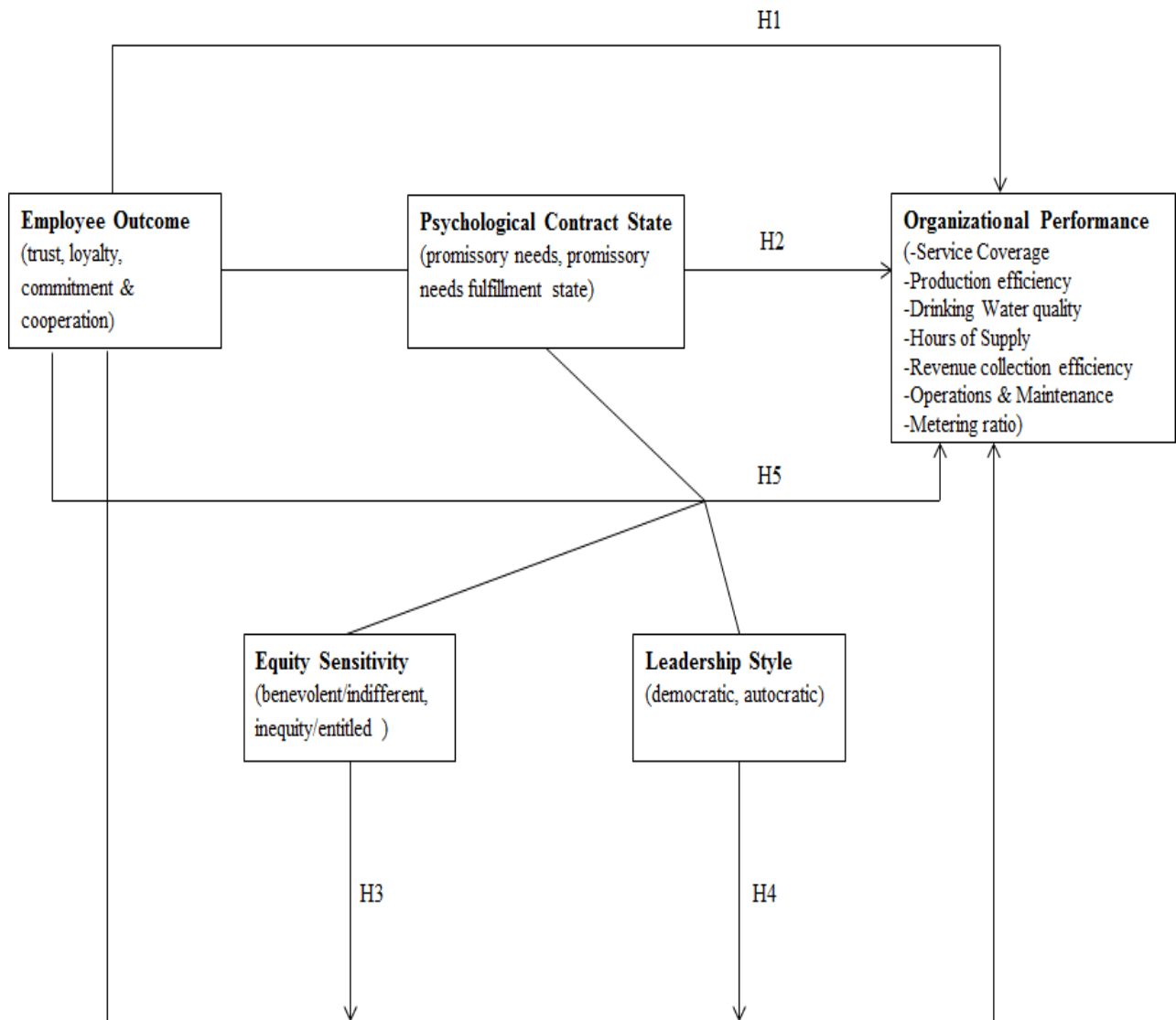
The relationship between PC state and organization performance has been studied by Argyris (1960) and Jurek (1968). However the nature and strength of the link between the two variables is unclear. Further study was suggested by Jurek (1968) on the effect of mediation and moderation (third variable effect). Among the variables in Argyris (1960) research which Jurek (1968) overlooked in his study were the employee outcomes (attitude/behavior), employee predispositions (equity sensitivity) and leadership. The preposition for this study is that the link between PC state and organizational performance is explained by employee outcomes (that is trust, loyalty, commitment and cooperation) and depends on equity sensitivity of employees and leadership style of the management.

The literature review has established that PC state has influence on trust (Robinson & Rousseau, 1994; Atkinson, 2007), loyalty (Turnley & Feldman, 1999), commitment (Shapiro & Kessler, 2000; McDonald & Makin, 2000) and cooperation (Conway & Coyle-Shapiro, 2012). The findings are anchored on SET assumption that, parties in a relationship are interdependent and any action by one party leads to a response by the other (Masterson, Lewis, Goldman & Taylor 2000; Crozapano & Mitchell, 2005). In this study the dimensions of employee outcomes are combined because trust has high consistent relations to loyalty, commitment (Lau & Sook, 1999; Bricci, Fragata & Antunes, 2016) and cooperation.

Social exchange theory also assume that in a relationship, members seek equitable or maximal benefits in return for their inputs; but studies have shown individuals differ on how they evaluate the benefits (Crozapano & Mitchell, 2005) depending on their equity sensitivity. A study by Blakely, Andrew and Moorman (2007) demonstrated that benevolent outperform entitled on OCB when the organizational justice is low or high. Furthermore, another study showed that under negative PC state (PC breach) entitled express stronger negative reaction and also engage in more deviant acts than benevolent (Restubog, Bordia, & Tang, 2007). Therefore the benevolent type exhibit relatively better employee outcomes than equity balanced and entitled under different PC states. Moreover studies indicate that different types of equity sensitivity appeal to different types of benefits. The benevolent appeal to intrinsic, entitled to extrinsic and equity balanced to an overlap of both (Kickul & Lester, 2001; Weathington, & Reddock, 2011). This is what informed the choice of PC content so as to eliminate biases. Therefore it is posited that the relationship between PC state and organizational contract through employee outcomes is moderated by equity sensitivity predispositions of the employees.

The role of leaders in an organization is to influence behavior of the other members by aligning them to overall goal of the organization. The leadership approaches adopted in the organization will either be people or work focused. People focused leadership involve a lot of communications, empowerment and consultation between the parties. This leadership style is referred to as democratic style. The converse of democratic leadership is autocratic; which is more work focused and is marked by much directing, monitoring and evaluation of activities. An approach that employees perceive as supportive leads to commitment and ultimately has influence on important organizational outcomes (Cropanzano & Mitchel, 2000). The assumption in SET is that an employee who perceives employer as helpful will return the gesture. As such it can be assumed that employees may still exhibit positive employee outcomes leading to organizational performance even though the promises have not been delivered. In this sense the link between PC state and organizational performance through employee outcomes is moderated by the leadership style of the management. In sum, there is an indirect relationship between PC state and organizational performance through employee outcomes which is moderated by equity sensitivity and leadership style as depicted in conceptual figure 2.1. The figure summarizes the concepts relationships and indicates the hypotheses to be tested in commensurate with the objectives of the study.

**Figure 2.1: Conceptual Model Depicting the Relationship between the Variables**



Source: Researcher (2013)

## 2.10 Conceptual Hypotheses

The hypothesized relations illustrated in the conceptual model (figure 2.1) are as follows:

- H1: There is a significant relationship between psychological contract state and organizational performance.
- H2: The relationship between psychological contract state and organizational performance is mediated by employee outcomes.
- H3: The effect of psychological contract state on organizational performance is moderated by employee's equity sensitivity predisposition.

H4: The influence of psychological contract state on organizational performance is moderated by leadership style of the management.

H5: The joint effect of psychological contract state, employee outcomes, equity sensitivity and leadership style is greater than their individual effects on organizational performance.

### **2.11 Post Hoc Analysis**

H1a: There is a relationship between employee outcomes and organizational performance.

H2a: There is an indirect relationship between employee outcomes and organizational performance through psychological contract state.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter discusses the research methodology adopted that the study adopted. The discussions include: the research philosophy, research design and the population of the study, data collection, operationalization of the research variables, measurement and methods of data analysis.

#### **3.2 The Research Philosophy**

Research philosophy relates to the development of knowledge and its nature, and contains important assumptions about the way in which researchers view the world (Saunders, Lewis & Thornhill, 2007). There are two commonly used research philosophies that underpin research in social sciences: positivism and phenomenology paradigms.

Phenomenological approach terms are based on a paradigm of personal knowledge and subjectivity. The emphasis is the personal perspective and interpretation intended to identify phenomena and present information from the perspective of research participant(s). The researcher is also not independent of the phenomena under observation (Crossan, 2003). Unlike positivism, knowledge is socially constructed and subjective. Phenomenological approach involves gathering in depth information and perceptions. This is done through inductive qualitative methods such as interviews, discussions and conversations, participation observations, action research focus meetings and analysis of personal texts (Saunders et al., 2007).

Positivism is an approach used to generate knowledge by positive verification of a measurable experience, in a structured, precise and objective manner. The variables had been operationally defined and then a set of hypotheses (probabilistic causal laws) were drawn to be tested and confirmed or otherwise. The assumption is that there are general patterns of cause and effect that can be used for prediction and control of natural phenomena (Cooper & Schindler, 2006). The pattern or relationship among variables is theoretically derived. The researcher is also assumed to be independent of the phenomenon under focus. The methods associated with this paradigm include for example experiments, surveys, simulation and forecasting. The methods are structured and often involve collection of quantitative data. The data analysis methods used are rigorous mathematical or statistical techniques. The conclusions drawn from the research evidence may by deduction either partly/wholly confirm or refute the hypotheses.



The nature of the knowledge that was sought in this study relate to establishing linkage among operational variables and testing hypotheses as per the research question. That was to determine the role of employee outcomes, equity sensitivity and leadership style in the relationship between psychological contract state and organizational performance of public WSPs in Kenya. Empirical data was collected from management employees and secondary data of Kenya WSPs and hence positivistic paradigm was the preferred paradigm.

### **3.3 Research Design**

The study was done to gain better understanding of the impact of the concept of PC on WSPs performance through the employee outcomes and how the relationship interacts with equity sensitivity and leadership style of the management. Therefore the design of the study was a descriptive cross-sectional survey that involved a census of the WSPs. The design allowed description of the characteristics of the population being studied. It also helped the establishment of the relationships among variables and their magnitude across the WSPs.

The data was collected as a snap shot at one point time which enabled the researcher to establish whether significant relationships among variables existed (Cooper & Schindler, 2006) across the responding entities. The research participants responded to similar questions which were carefully chosen and sequenced. This means that the researcher had no control of events that took place and also had no control or influence on the variables of the study.

### **3.4 Population of Study**

The population of the study comprised all the 100 water service providers in Kenya as shown in appendix 6. These water companies ranged from very large, large, medium and small as per classification by water services regulatory board (WASREB, 2014). The study was a census survey with the unit of analysis being the WSPs. These units are homogeneous in in terms of having similar criteria for measuring the key performance indicators. The entities were also similar in terms of legitimacy, structure and services. However, they were expected to differ in respect to the variables of the study.

### **3.5 Data Collection**

The study applied both secondary and primary data. The secondary data consists of seven KPIs obtained from published reports on the performance of WSPs by water services regulatory board as shown in Table 4.13. The primary data was collected at one point in time whereas the secondary data was from 2013/2014 performance evaluation (WASREB, 2014).

The unit of analysis was the organization but the required primary data was obtained from the heads of departments (HODs) or heads of sections (HOSs) and was obtained by use of a questionnaire. The choice of the respondent was deliberately done because both HOSs and HODs direct the core businesses which enable attainment of KPIs. The heads of departments were from technical, commercial, human resource and administration departments. The heads of sections were from metering, operations and maintenance, treatment, production, sewerage, reconnection- disconnection and revenue managers.

The primary data was obtained from the respondents through the self-administered questionnaire which is attached as Appendix 5. The data collection instrument was delivered to the respondents through mail by the researcher or his assistant. The questionnaire was semi structured on a Likert-type scale format. It was divided into part one and two with various sections according to the research objectives. Part one sought to obtain demographic data of the respondent, while part two had four sections as follows: section 1 was for PC state, 2-employee outcomes, 3-equity sensitivity and, 4- leadership. The respondents target was four employees at management level from each entity studied. Table 3.1 shows how these variables were operationalized. The approach was appropriate for the purpose of the study, scope of the topic, researcher involvement, period over which the data was to be collected, nature of data to be collected and the type of analysis performed.

### 3.6 Operationalization of the Variables

The variables are operationalized as shown in table 3.1.

**Table 3.1: Operationalization of Research Variables**

Variable Type	Variable Name	Operational Definition		Indicators	Questionnaire Item
Independent	Psychological Contract State (identify promises made and find out satisfaction state)	Promissory expectations based on employees' intrinsic and extrinsic needs Source: Modified Herzberg, Mausner & Snyderman (1959)		Extent to which organization adopted the explicit and implicit needs of employee	Section 1 (a) with 12 items measured in 5 points Likert type scale
		Promissory expectations fulfillment of the employee intrinsic and extrinsic needs		Extent to which employee feels that the promises have been satisfied	Section 1 (b) with 12 items measured in 5 points Likert type scale
Dependent	Organizational Performance	WSPs organizational performance review of 2014 report by WASREB of Kenya		Service coverage, production efficiency (calculated from UFW), drinking water quality, hours of supply, revenue collection efficiency, operations and maintenance, metering ratio	Not applicable because this was secondary data obtain from performance review report by WASREB of Kenya (2014)
Mediator	Employee outcomes (4 broad categories of attitude and behavior)	Trust	The confidence employees have in management Source: Modified Schoorman and Ballinger (2006)	Extend to which you normatively trust your organization	Section 2 (a) with 7 items measured in 5 points Likert type scale
		Loyalty	Employees' willingness to secure the interests or well-being of the organization other than their own	Extend of employees' the loyalty feeling towards the current employer	Section 2 (b) with 9 items measured in 5 points Likert type scale
		Commitment	The desire of employees to stay in the organization as a norm Source: Allen, and Meyer (1990)	Extend to which you feel committed to your organization	Section 2 (c) with 6 items measured in 5 points Likert type scale
		Cooperation	The team spirit Source: Modified Gittel (2011)	Extent of one's willingness to show cooperative behavior	Section 2 (d) with 5 items measured in 5 points Likert type scale
Moderator	Equity Sensitivity	The sensitivity or insensitivity about equity Source: Clark (2010)		Extent to which employee predispose sensitivity or otherwise about equity	Section 3 (a) with 4 items each consisting of A, B, C all measured in 5 points Likert type scale
Moderator	Leadership Style	The extent to which management of the organization exhibit democratic tendencies or otherwise Source: Heskett et al. (1994)		Perception of employees on extent to which democratic leadership style is used in the organization or otherwise	Section 2 (b) with 9 items measured in 5 points Likert type scale

Source: Researcher (2016)

### **3.7 Test of Reliability and Validity**

The term reliability and validity are applied in this instant with respect to the measurement instrument applied in this study. Hence, reliability is a measure of extent to which a measurement instrument gives consistent results over time and under different situations. Reliability implies the degree to which measures are free from error and can give consistent measures (Mugenda, 2010). A two-step approach to test reliability was used. Step one; a pilot test with 10 organizations which were not in the population being studied was carried out prior to data collection to ensure that respondents generally interpreted and understood the questions. Step two, the instrument was edited and also restructured accordingly. The version of the final questionnaire administered contained 72 items down from initial 84 items. The questionnaire was tested for reliability through computation of Cronbach's alpha ( $\alpha$ ) which ranges from 0 to 1. The results of the internal consistency tests are presented in Table 3.2.

Validity tests whether a measurement instrument measures what it is supposed to measure. There are three different measures of validity namely, construct, content and discriminant validity. The measure applied in this study was construct validity which tests the extent that a measurement actually represents the construct it is measuring. In other words, to what degree operational definition of variables does reflect the theoretical meaning of concept (Mugenda, 2010). A thorough literature review on the existing studies was done. In respect of employee outcomes that is; trust, loyalty, normative commitment and cooperation were adapted with suitable modification from Schoorman and Ballinger (2006), Allen and Meyer (1990) and Gittell, (2011) respectively. Measurement instrument for leadership was adapted and modified from Heskett et al. (1994), meanwhile equity sensitivity measurement questions were adopted and modified from and Clark et al. (2010).

In structural equation modeling, it is presumed that when a construct is drawn, the factor loading for the construct is greater than 0.70 (Nunnally, 1978). In testing construct validity, Cronbach's alpha is used where for exploratory purposes 0.60 is accepted, confirmatory purposes 0.70 is accepted, and 0.80 is considered good. If the construct satisfies the above presumption and expectation, then the construct would be helpful in predicting the relationship between dependent variables. The results for test of reliability and validity were as presented in Table 3.2.

**Table 3.2: Reliability and Validity Statistics**

Part 2 of the instrument	Variable	Cronbach's Alpha	Number of Items	Remarks
Whole instrument				
Section 1:(a) and (b)	Psychological contract state	0.949	24	Reliable
Section 2: (a), (b), (c), (d) and (e)	Employee outcomes	0.922	27	Reliable
Section 3: (a)	Equity sensitivity	0.864	12	Reliable
Section 4: (b)	Leadership	0.763	9	Reliable

Source: Primary data

The results in Table 3.2 show that cronbach's alpha coefficient ranged between 0.949 and 0.763. Cronbach's alpha psychological contract state and employee outcomes were 0.949 and 0.922 respectively which are very good. Equity sensitivity was 0.864 which was good and leadership was 0.763 which is  $\geq 0.70$  which is acceptable threshold by Nunnaly (1978). Thus are all the variables had acceptable Cronbach's alpha and could be applied for further analysis.

### 3.8 Data Analysis

The unit of analysis was Public WSP as per the classification of WASREB. The data preparation was to be done involving the cleaning, editing, coding, analysis and reporting. The descriptive and inferential statistics were applied during the analysis of data. The descriptive statistics provided information about the central tendency, dispersion, skew, and kurtosis of data.

The inferential statistics made broader statements which among others describe the nature of the attributes in the study say; response rate, validity and reliability testing using confirmatory factor analysis and Cronbach alpha methods respectively (Nunnaly, 1978; Churchill, 1979). The assumptions of linear regression were to be tested to enable further statistical procedures which included normality, linearity, multicollinearity and heteroscedacity. Thereafter relationships between variables were tested using analytical approaches indicated in table 3.3 which includes simple, stepwise and multiple regression methods.

**Table 3.3: Objectives, Corresponding Hypotheses and Associated Tests**

Objective	Hypothesis	Analytical Technique	Model Estimation	Interpretation of Results
1: Determine relationship between psychological contract state and organizational performance	H1: There is a significant relationship between psychological contract state and organizational performance	Simple regression	$OP = I_0 + \beta_1 PCS + \varepsilon_0$	<b>(R<sup>2</sup>)</b> Coefficient of determination is expected to show percentage of variation in organizational performance as explained by the dimensions of PC State <b>F ratio</b> (will show whether the relationship is statistically significant) <b>P-value &lt; 0.05</b> implies moderating influence is significant <b>Beta</b> for every one-unit change in the predictor variable the dependent variable will change by the unstandardized beta coefficient value <b>t</b> -assess the extent to which the magnitude of the slope is significantly different from the line on the X axis. Also it shows the results are statistically significant
2: To establish the mediating effect of employee outcomes in the relationship between PC state and organizational performance	H2: The relationship between psychological contract state and organizational performance is mediated by employee outcomes	Stepwise regression analysis	Step1: $OP = I_1 + \beta_2 PCS + \varepsilon_1$ Step2: $EO = I_2 + \beta_3 PCS + \varepsilon_2$ Step3: $OP = I_3 + \beta_4 EO + \varepsilon_3$ Step4: $OP = I_4 + \beta_5 EO + \beta_6 PCS + \varepsilon_4$	<b>(R<sup>2</sup>)</b> value will show the indirect effect of employee outcomes on the strength of the relationship between PC state and organizational performance <b>F ratio</b> (will show whether the relationship is statistically significant) <b>P-value &lt; 0.05</b> then, moderating influence is significant <b>Beta</b> for every one-unit change in the predictor variable the dependent variable will change by the unstandardized beta coefficient value <b>t</b> -assess the extent to which the magnitude of the slope is significantly different from the line on the X axis. Also it shows the results are statistically significant

**Notations:** OP=organizational performance,  
 PCS=psychological contract state,  
 I<sub>i</sub>=estimate of intercepts for each equation,  
 β<sub>j</sub>=beta coefficients (effect of the predictor on criterion),  
 ε<sub>k</sub>=regression error terms,  
 EO=Employee outcomes (mediator),

**Table 3.3 Continued**

Objective	Hypothesis	Analytical Technique	Model Estimation	Interpretation of Results
<p>3: To determine the moderating influence of equity sensitivity in the relationship between PC state on organizational performance</p>	<p>H3: The effect of PC state on organizational performance is moderated by equity sensitivity disposition of employees</p>	<p>Hierarchical regression analysis</p>	<p><b>Step1:</b> <math>Y = a_0 + \beta_0 X + \varepsilon_0 \rightarrow OP = I_5 + \beta_7 PCS + \varepsilon_5</math></p> <p><b>Step2:</b>  <math>Y = a_1 + \beta_1 X + \beta_2 M_o + \varepsilon_1 \rightarrow OP = I_6 + \beta_8 PCS + \beta_9 ES + \varepsilon_6</math></p> <p><b>Step3:</b>  <math>Y = a_2 + \beta_3 X + \beta_4 M_o + \beta_5 Z_1 + \varepsilon_2 \rightarrow</math>  <math>OP = I_7 + \beta_{10} PCS + \beta_{11} ES + \beta_{12} PCS \cdot ES + \varepsilon_7</math></p>	<p><b>(R<sup>2</sup>)</b> value will show the conditional indirect effect of employee outcomes and leadership on the strength of the relationship between PC state and organizational performance  <b>F ratio</b> (will show whether the relationship is statistically significant)  <b>P-value &lt; 0.05</b> means that, moderating influence is significant  <b>Beta</b> for every one-unit change in the predictor variable the dependent variable will change by the unstandardized beta coefficient value  <b>t</b>-assess the extent to which the magnitude of the slope is significantly different from the line on the X axis. Also it shows the results are statistically significant</p>
<p>4: To establish the moderating effect of leadership style in the relationship between PC state on organizational performance</p>	<p>H4: The influence of psychological contract state on organizational performance is moderated by leadership style of the management</p>	<p>Hierarchical regression analysis</p>	<p><b>Step1:</b> <math>Y = a_3 + \beta_6 X + \varepsilon_3 \rightarrow OP = I_8 + \beta_{13} PCS + \varepsilon_8</math></p> <p><b>Step2:</b>  <math>Y = a_4 + \beta_7 X + \beta_8 M_o + \varepsilon_4 \rightarrow OP = I_9 + \beta_{14} PCS + \beta_{15} ES + \varepsilon_9</math></p> <p><b>Step3:</b>  <math>Y = a_5 + \beta_9 X + \beta_{10} M_o + \beta_{11} Z_2 + \varepsilon_5 \rightarrow</math>  <math>OP = I_{10} + \beta_{16} PCS + \beta_{17} ES + \beta_{18} PCS \cdot ES + \varepsilon_{10}</math></p>	<p><b>(R<sup>2</sup>)</b> value will show the conditional indirect effect of employee outcomes and leadership on the strength of the relationship between PC state and organizational performance  <b>F ratio</b> (will show whether the relationship is statistically significant)  <b>P-value &lt; 0.05</b> means that, moderating influence is significant  <b>Beta</b> for every one-unit change in the predictor variable the dependent variable will change by the unstandardized beta coefficient value  <b>t</b>-assess the extent to which the magnitude of the slope is significantly different from the line on the X axis. Also it shows the results are statistically significant</p>

**Table 3.3 Continued**

Objective	Hypothesis	Analytical Technique	Model Estimation	Interpretation of Results
5: Find out the combined effect of PC state, employee outcomes, equity sensitivity and leadership style on organizational performance	H5: The joint effect of psychological contract state, employee outcomes, equity sensitivity and leadership style is greater than their individual effects on organizational performance	Multivariate regression analysis	OP is a function of PCS, EO, ES and LS $OP = I_{11} + \beta_{19} PCS + \beta_{20} EO + \beta_{21} ES + \beta_{22} LS + \varepsilon_{11}$	<b>(R<sup>2</sup>)</b> Coefficient of determination is expected to show percentage of variation in organizational performance as explained jointly by the PC state, dimensions of employee's outcome, equity sensitivity and leadership style <b>F ratio</b> (will show whether the relationship is statistically significant) If <b>P-value &lt;0.05</b> , the relationship is significant <b>Beta</b> for every one-unit change in the predictor variable the dependent variable will change by the unstandardized beta coefficient value <b>t-</b> assess the extent to which the magnitude of the slope is significantly different from the line on the X axis. Also it shows the results are statistically significant

**Notations:** Y= Dependent variable (criterion)  
 X=Independent variable (predictor)  
 M<sub>o</sub>= Moderating variables  
 Z<sub>j</sub>= (X\*M<sub>o</sub>) Interaction term  
 ES=equity sensitivity  
 LS=Leadership style.



## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This chapter presents the outcome of the data analysis and the findings based on the objectives and hypotheses of the study. The broad objective of the study is to establish the relationship between psychological contract and organizational performance and how this is mediated by employee outcomes and moderated by equity sensitivity and leadership style in public WSPs in Kenya. Five objectives were derived together with their corresponding hypotheses from the broad objective. The first hypothesis indicated a relationship between PC state and organizational performance. However, this influence is mediated by employee outcomes. Further it was hypothesized that the relationship between PC state and employee outcomes is largely moderated by individual employees' equity sensitivity and the leadership style of the management of the WSPs in Kenya.

This chapter is divided into three sections. Section one consists of the preliminary research findings describing the nature of the attributes of the study. This includes: response rate, confirmatory factor analysis and test of reliability using Cronbach alpha (Nunnally, 1978; Churchill, 1979). The assumptions of linear regression were tested and the results were within the limits that allowed further statistical tests. These included normality, linearity, multicollinearity and heteroscedacity. Section two presents result of cross-sectional analysis of the collected data. The analysis of data was carried out using a statistical program for social sciences referred to SPSS version 12 and applying both descriptive and inferential statistics. The five study hypotheses were tested applying both simple and multiple regressions and also correlations between various variables of the study. Lastly, the results were discussed according to the study objectives and corresponding hypotheses. The intention was to establish if there is any meaningful association among the variables based on confirmatory and inconsistent results of past studies.

#### **4.1.1 Preliminary Research Findings**

The data collected was initially cleaned and then pretested for normality, linearity, multicollinearity and heteroscedacity. Normality of data was tested using both graphical and statistical techniques. The graphical method to test for normality was the histograms. Meanwhile linearity was tested using scatter plots.

The normality of the data was tested by checking the shape of the histograms. The histograms shape was symmetrical and bell-shaped curved, and showed that the greatest frequency of scores was in the middle and fewer frequencies appeared at the extremes. This implied that, the scores followed the shape of normal curve, and thus the data was presumed as normally distributed. The results were as shown in Appendices 9a, 10a, 11a, 12a and 13a. Furthermore, another statistical method used was Shapiro-Wilk test for normality because the sample was  $n < 50$ . The results as shown in table 4.0 showed  $p > 0.05$  for psychological contract state, employee outcome, equity sensitivity and leadership style. These simply imply the data is from a normally distributed population.

**Table 4.0: Test of Normality Results**

	Kolmogorov - Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	P-value	Statistic	df	P-value
psychological contract state	0.121	31	0.200*	0.959	31	0.280
employee outcomes	0.104	31	0.200*	0.967	31	0.439
equity sensitivity	0.154	31	0.059	0.909	31	0.012
leadership	0.153	31	0.062	0.916	31	0.018

a. Lilliefors significance Correction

\*. This is a lower bound of the true significance.

The linearity of data was also confirmed by normality plots (Normal P-P plots). These P-P plots were arrived at by plotting the observed value for each score against the expected value in the normal distribution. The results showed a reasonably straight line as depicted in Appendices 9b, 10b, 11b, 12b and 13b.

The test of multicollinearity was performed to establish if independent variables are within themselves highly correlated which cause imprecise estimation of ordinary least squares estimators. The detection methods used were correlation matrix shown on table 4.1 and variance inflation factor (VIF) of the correlation matrix shown on table 4.2.

**Table 4.1: Results of Inter-Variable Correlations Analysis**

		Correlations				
		Psychological Contract State	Employee outcomes	Equity Sensitivity	Leadership	Performance
Psychological Contract State	Pearson Correlation	1				
Employee outcomes	Pearson Correlation	0.539**	1			
Equity Sensitivity	Pearson Correlation	0.164	0.194	1		
Leadership Style	Pearson Correlation	0.610**	0.632**	0.083	1	
Performance	Pearson Correlation	0.365**	0.334*	0.200	0.270	1

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

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

The correlation matrix in Table 4.1 resulted from inter-item correlation analysis. The results of analysis for detecting multicollinearity using the correlation coefficients of independent variables method in Table 4.1 were less than 1, which is one indication that there was no multicollinearity.

To counter check the results in Table 4.1 the variance inflation factor (VIF) method for assessing multicollinearity was done. This involved first computing tolerance measures of the influence of one variable on all other independent variables using first step linear regression analysis method. Tolerance is specified as  $T=1-R^2$ . When T is less than 0.1 it indicates that there might be some multicollinearity whereas when T is less than 0.001 multicollinearity is certainly presence. VIF is the inverse of tolerance (that is  $1/T$ ). When VIF is greater than 10 there is presence of multicollinearity (Hair et al., 2008) whereas if VIF is greater than 100 there is certainly multicollinearity. The results were presented in Table 4.2.

**Table 4.2: Results of the Test of Multicollinearity**

Variable		Coefficients	
		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	psychological contract state	0.582	1.719
	employee outcomes	0.586	1.706
	leadership	0.603	1.660
	equity sensitivity	0.862	1.161

The results of this study further showered that VIF ranged from 1.161 to 1.719 which is less than 10(<10), whereas tolerance values were between 0.582 and 0.862 which was above 0.01 (>0.01). These results overall imply that, there is no multicollinearity between the variables of this study.

Heteroscedacity were tested using p-p plots and scatter plots in Appendices 9c, 110c, 11c, 12c and 13c. The scatter plots diagram show points that are randomly and evenly dispersed throughout the plots. The pattern is indicative of a situation in which assumptions of heteroscedacity were met and thus preceded with other analysis.

### 4.1.2 Response Rate

The number of organizations that responded and returned the survey questionnaires was 32 out of 100 entities. Therefore the response rate was 32 percent. The explanation for this response rate is that there is general apathy of academic research in these organizations. However 32% response rate is reasonable since it falls between 30% to 50% range suggested by Saunders, Lewis and Thornhill (2009).

## 4.2 Demographic Statistics

The survey questionnaires were delivered to HR managers of WSPs. The questionnaire had requested the respondents to indicate their gender, age, length of service, education level and job level. The information was important because the respondents as key informants are required to have minimum level of education to be able to respond to the survey questions. In order to verify equity and representativeness of the perceptions in the organization, data on gender, age and tenure was also significant. Similarly, position held signifies that the right respondents have been targeted.

### 4.2.1 Distribution of Respondents by Gender

Respondents were asked to indicate their age. Age is important in this study as it may determine levels of commitment and loyalty among different age categories. The frequency distribution of the respondents by gender was as indicated in the Table 4.3.

**Table 4.3: Distribution of Respondents by Gender**

<b>Gender</b>	<b>Frequency</b>	<b>Percent (%)</b>
Female	13	26.0
Male	37	74.0
Total	50	100.0

Source: Primary Data

As shown in Table 4.3, the 26% (percent) of the respondents were women, while the 74% were men. This indicates that majority of employees in WSPs in Kenya are men. This implies that gender parity is not significant in the HR recruitment of the managers in the WSPs in Kenya.

#### 4.2.2 Distribution of Respondents by Age

The demographic data on age was measured in four categories as indicated in Table 4.4. Age as an item of study may be significant in that different PC states is attributable to age category. Different age group in work situation may have diverse appeal to hygiene and intrinsic content of psychological contract. For example, career progression may have appeal to youthful employee than older ones. Thus different PC state for older employees may significantly differ from that of younger employees.

**Table 4.4: Distribution of Respondents by Age Bracket**

Years Range	Frequency	Percent	Cumulative Percent
below 30	14	28.0	28.0
30-39	30	60.0	88.0
40-49	3	6.0	94.0
over 49	3	6.0	100.0
Total	50	100.0	

Source: Primary Data

The results in Table 4.4 show that, the majority of the respondents are between 30-39 years, 28 percent are below 30 years, 6% are 40-49 years and 6 percent are above 50 years. Cumulatively 88% are thirty-nine years and below, implying that majority of employees is relatively youthful.

#### 4.2.3 Distribution of Respondents by Length of Service

The respondents were asked to indicate the tenure of service. Tenure indicates the number of years an employee has spent in the organization since employment. Tenure is an important item since it shows whether respondents have a general understanding of the variables of the study. Tenure was categorized into five categories as shown in Table 4.5.

**Table 4.5: Categorization of Service Tenure of the Respondents**

Years Range	Frequency	Percent	Cumulative Percent
0-5	22	44.0	44.9
6-10	18	36.0	81.6
11-15	2	4.0	85.7
16-20	5	10.0	95.9
Over 20	2	4.0	100.0
Total	49	98.0	
Missing System	1	2.0	
Total	50	100.0	

Source: Primary Data

The results show, that 81.6 percent of the respondents have worked for less than 10 years and 18.4 percent for more than ten year. Precisely 44 percent have worked in the WSPs for not more than 5 years. This may imply that normative commitment and loyalty dimensions of employee outcomes may not be low since they are relatively new in the organization. The response on PC dimensions which require having served in organization longer may be reported lowly.

#### **4.2.4 Distribution of the Respondents' Highest Academic Qualification**

The frequency distribution of the respondents in terms of their academic qualifications was as presented in Table 4.6. Academic qualification is significant because it establishes whether the respondents were capable of understanding the measurement instrument and able to respond to the questions. The frequency distribution of the respondents based on their highest academic qualification was as specified in Table 4.6.

**Table 4.6: Distribution of the Respondents' Highest Academic Qualification**

<b>Academic Qualification</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Ordinary level	8	16.0	16.0
Diploma	26	52.0	68.0
Degree	12	24.0	92.0
Masters	2	4.0	96.0
PhD	2	4.0	100.0
Total	50	100.0	

Source: Primary Data

The results in Table 4.6 show that, the majority of the respondents were diploma holders at 52 percent, ordinary level are 16 percent whereas degree and above are 32 percent. This implies that, the respondents were able to comprehend the questions in the measuring instrument which related to their respective department.

#### **4.2.5 Distribution of the Respondents by Position held in the Organization**

The position held in the organization by the respondent is significant because it has a bearing on one's ability to comprehend what psychological contract the organization has for its employees. The respondents were asked to indicate the position held in the organization and the results were as presented in Table 4.7.

**Table 4.7: Distribution of the Respondents by Position Held in the Organization**

<b>Position Held by the Respondent</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Head of department	19	38.0	38.8
Section head	30	60.0	100.0
Total	49	98.0	
Missing	1	2.0	
Total	50	100.0	

Source: Primary Data

The results show that 38.8% are heads of departments whereas 60% are heads of sections. This implies that the employees have basic understanding of what the organization has promised its employee since they are in position of management. The high number of HOS implies the perceptions of operational level employees are well represented.

#### **4.2.6 Distribution of Organization Size Based on Number of Employees**

The questionnaire captured data on the size of the organization based on the number of employees per unit of analysis. This information was as presented in Table 4.8. Organization size based on the number of employees was important in order to show that the research captured the results from very large, large, medium and small organizations.

**Table 4.8: Categorization of Organization Size by Number of Employees**

<b>Number of Employees</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
0-50	15	30.0	31.9
51-100	12	24.0	57.4
101-150	10	20.0	78.7
151-200	6	12.0	91.5
Over 200	4	8.0	100.0
Total	47	94.0	
Missing System	3	6.0	
Total	50	100.0	

Source: Primary Data

The results showed that majority of WSPs at 78.7% (percent) have below 151 employees and 21.3% have over 150 employees. There were only 8% of WSPs with over 200 employees.

### 4.3 Descriptive Statistics on Psychological Contract and Psychological Contract State

The first step is to measure the employers' promissory communicative actions on the basis of intrinsic and extrinsic needs of employee. This involves measuring the extent to which in the perception of the employer (CEO or HR or Supervisors) whether the organization has either explicitly or implicitly made promise to the employee to fulfill their needs (hygiene or Motivators). In the case of this study the first step was omitted because the respondents were themselves in the management positions.

Step two is to measure promissory expectations of the employee in regard to their intrinsic and extrinsic needs. This was achieved by enquiring as follows; "to what extent did your employer make the following promises?" The factors that approximately to great extent employees agreed as promises (promissory expectations) and standard deviation of <1.0 are considered into step one and factored in step 2 of this study.

Psychological contract measures the extent to which employees have expectations due to promises made either explicitly or explicitly by their employer in step. Psychological contract was operationalized as a measure of promissory expectations of employee expected to be satisfied by the employer. The extent to which employees feels/believes that their expectations have been satisfied is the psychological contract state. Twelve items were measured on a five point Likert type scale ranging from 1 to 5 score. The promissory mean score of >3.49 and standard deviation of <1.0 was taken as promise made to the employee as indicated in Table 4.9a.

**Table 4.9a: Descriptive Statistics on Psychological Contract**

Promissory Statements	N	Mean	Std. Deviation
promise to ensure a regular, adequate and timely salary	50	4.06	0.867
promise to ensure good working environment	50	3.70	0.886
promise to give facilities/tools for performing the job	50	3.58	0.906
promise to give challenging work	48	3.56	0.873
promise to ensure employees interact among themselves	49	3.55	0.937
promise to ensure job security	49	3.39	1.304
promise to ensure formal policy that respects my status	48	3.33	1.098
promise to avail opportunity for career advancement	50	3.30	1.182
promise to ensure am given recognition for good work performance	50	3.06	1.185
promise to take interest in employee's personal life	50	3.04	1.009
promise to offer equal opportunity to train	50	3.00	1.178
promise to give other fringe benefits above normal salary	50	2.70	1.093
<b>Aggregate Score</b>	<b>45</b>	<b>3.36</b>	<b>1.0432</b>

Source: Primary Data



The results in Table 4.9a indicate that five items out of twelve were perceived to a great extent by the employees, as promises made by the employer. The mean of PC ranged from 3.55 to 4.06 and standard deviation ranged from 0.867 to 0.937. Psychological contract state was measured as an extent to which the employee feels or perceives that a promise has been satisfied (fulfilled) by the employer.

The step three involve measuring PC state, from the perspective of employee, the extent to which the promissory expectations have been fulfilled by the employer. Twelve items were measured on a five point Likert type scale ranging from 1 to 5 score.

**Table 4.9b: Descriptive Statistics on Psychological Contract State**

<b>Promissory Statements on Fulfillment of Promises</b>	<b>N</b>	<b>Mean</b>	<b>S.D.</b>
fulfills promises to ensure a regular, adequate and timely salary	44	3.95	0.914
fulfills promises to ensure good working environment	44	3.77	0.937
fulfills promises to give facilities/tools for performing the job	44	3.68	0.740
fulfills promises to ensure employees interact among themselves	43	3.58	0.823
fulfills promises to give challenging work	44	3.57	0.846
fulfills promises to ensure job security	42	3.52	1.174
fulfills promises to avail opportunity for career advancement	44	3.41	1.085
fulfills promises to take interest in employee's personal life	44	3.34	1.010
fulfills promises to offer equal opportunity to train	44	3.30	0.978
fulfills promises to ensure formal policy that respects my status	41	3.24	0.969
fulfills promises to ensure am given recognition for good work performance	43	3.23	1.109
fulfills promises to give other fringe benefits above normal salary	43	3.05	1.022
<b>Aggregate Score</b>	<b>39</b>	<b>3.47</b>	<b>0.967</b>

Source: Primary Data

The promissory state mean score of 3.57 to 3.95 and standard deviation of 0.740 to 0.937 approximately was taken as promise fulfilled by the employer as indicated in table 4.9b. PC state was operationalized as employee feelings of satisfaction about fulfillment of the promises made by the employer (state of fulfillment of promises). The results in table 4.9a indicate the content of PC made by employer to employees in WSPs is skewed towards hygiene factors. The employer sparingly gives consideration to training, career advancement and recognition needs of the employees. Such a contract comprising more extrinsic factors may not have an appeal to benevolent by rather to equity balanced and entitled (Kickul & Lester, 2001; Weathington, & Reddock, 2011).

### **4.3.1 Psychological Contract and Psychological Contract State**

As shown in Table 4.9a, the aggregate mean score for promissory expectations on the employees' needs was 3.36 and standard deviation of 1.04 implying that most employees perceived that employer moderately have made promise to satisfy their intrinsic and extrinsic needs. The highest mean was on the promise to ensure adequate and timely salary at 4.06 and standard deviation 0.867. This implied that most of the employees had to a very great extent promissory expectation that their employer was to pay adequate salary regularly and timely. The lowest mean 2.70 and standard deviation 1.093 was on promise to give other fringe benefits above normal salary. The employees slightly perceive that the employer had promised other fringe benefits above normal salary. This implies that employees have low expectations of fringe benefits promise from their employer. In other words, they have low promissory expectation in regard to other fringe benefits.

The results also show that the employees generally agreed that they have good working environment (mean =3.70, standard deviation = 0.886), facilities/tools for performing the job (mean =3.58, standard deviation = 0.906), challenging work, (mean =3.56, standard deviation =0.873), and interaction among employees (mean = 3.55, standard deviation =0.937). Further, also the PC results show employees generally agreed to a moderate extent that the employer has made promise to provide formal policy that respects my status (mean = 3.24, standard deviation = 0.969 and, equal opportunity to train (mean =3.30, standard deviation = 0.978) However employees differed on their perception of PC whereby they moderately felt that the employer has made promises on; interest in employee's personal life (mean=3.34, standard deviation=1.010), other fringe benefits above normal salary(mean=3.05, standard deviation=1.022), opportunity for career advancement (mean=3.41, standard deviation=1.085, recognition for good work performance (mean=3.23, standard deviation=1.109).

The results in Table 4.9a show that in terms higher mean and standard deviation of less than 1 was on the promise to ensure a regular, adequate and timely salary, good working environment challenging work, facilities/tools for performing the job, ensure employees interact among themselves. That means it is generally agreed among the employees on this factors. Drawing from Herzberg two factor theory it can be argued that employees have higher inclination towards hygiene factors than motivators.

The lowest score was on the promise to give other fringe benefits above normal salary (Mean =2.70, standard deviation=1.093) implying that employees differed on their perception about the organization's promises on fringe benefits. It can be argued that the organization does not promise fringe benefits to the employees. This means that the promise to give other fringe benefits above normal salary should not be considered in the measure of PC state. This is because employees feel that the employer has not made up to the earlier promise. In overall, employee views differed although they had moderate perception that there was a psychological contract in existence between them and the employer (mean=3.36, standard deviation=1.0432).

The Table 4.9b results of PC state (that is the fulfillment of promises) the employees generally agree that to a great extent the employer has satisfied the promises on; a regular adequate and timely salary (mean=3.95, standard deviation=0.914) and good working environment (mean=3.77, standard deviation=0.937),provision of facilities/tools for performing the job (mean=3.68,standard deviation=0.740), ensuring interaction of employees among themselves (mean=3.58, standard deviation=0.823) and giving challenging work ensuring (mean=3.57, standard deviation=0.846). The employees also agree that the employer has moderately satisfied promises on formal policy that respect their status (mean=0.3.24, standard deviation=0.969) and on equal opportunity to train (mean=3.30, standard deviation=0.978).

The employees differed on their perception but moderately felt that the employer has satisfied promises on; interest in employee's personal life (mean=3.34, standard deviation =1.010), opportunity for career advancement (mean=3.41, standard deviation =1.085), fringe benefits above normal salary (mean =3.05, standard deviation =1.022), recognition for good work performance (mean =3.23, standard deviation= 1.109) and job security (mean =3.52, standard deviation =1.174). In this case the results shows that in fulfillment of promises made to employee there is balance in both Herzberg's two factors (hygiene and motivators).

However, other than the job challenges which are motivators, the employees to great extent perceive their employer's promissory communications action as basically hygienic in nature. The employee also perceives their employer as having fulfilled to a great extent the hygiene factor namely: regular, adequate and timely salary, good working

environment, give facilities/tools for performing the job, employees interact among themselves. The overall result is that the employees agree that the employer has moderately fulfilled the PC. This means the PC state is positive with a mean = 3.47 and standard deviation of 0.967. The employees on the factors that they earlier rated as less promissory also perceived them as moderately fulfilled by employer, For example, formal policy that respects their status (mean = 3.24, standard deviation = 0.969, recognition for good work performance (mean = 3.23, standard deviation = 1.109), other fringe benefits above normal salary (mean = 3.05, standard deviation = 1.022) were rated as moderately fulfilled by employer.

#### **4.3.2 Descriptive statistics on Employee Outcomes**

Behavioral employee outcomes measure the extent trust, loyalty, normatively committed to the current employer and extend to which one cooperates with others in the organization. This variable was operationalized as a measure of trust had 7 items, loyalty had 9 items, commitment had 6 items and cooperation had 5 items. The measures on trust were adapted from Schoorman and Ballinger (2006), commitment from Allen and Meyer (1990) and organizational cooperation from Gittell (2011). The results for trust, loyalty, normative commitment and cooperation dimensions of employee outcomes are shown in Table 4.10.

**Table 4.10: Descriptive Statistics on Employee outcomes**

<b>Trust</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
It is important for me to have a good way to keep an eye on my organization	50	3.98	0.654
if my organization asked why a problem occurred, I would speak freely even if I were partly to blame	50	3.80	0.881
I feel comfortable being creative because my organization understands that sometimes creative solutions do work	50	3.70	0.995
increasing my vulnerability to criticism by my organization would be a mistake	49	3.12	1.033
my organization keeps my interests in mind when making decisions	50	3.06	1.077
if I had my way, I wouldn't let my organization have any influence over decisions that are important to me	49	3.00	1.173
I would be willing to let my organization have complete control over my future in this company	50	2.78	0.954
<b>Aggregate Score</b>	<b>48</b>	<b>3.35</b>	<b>0.967</b>
<b>Loyalty of Employee</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
willingness to look for ways to increase service quality and organizational efficiency	49	4.35	0.723
willingness to follow established processes to work efficiently and effectively	49	4.22	0.743
willingness to take pride in my work and give it my best effort	48	4.29	0.771
willingness to enthusiastically recommend our services to potential or existing customers	48	4.15	0.875
willingness to take pride in my employer	48	3.81	1.003
willingness to assist in bearing the organizations burdens for my employer	48	3.10	1.016
willingness to make the interests or well-being of the organization to be of great concern to me personally	49	3.63	1.074
willingness to take risks on behalf of my employer	47	3.19	1.076
willingness to recommend my employer to prospective employees as a good place to work	49	3.45	1.138
<b>Aggregate Score</b>	<b>44</b>	<b>3.80</b>	<b>0.935</b>
<b>Normative Commitment</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
My organization deserves my loyalty	49	3.88	0.971
I owe a great deal to my organization	48	3.69	1.075
I do feel an obligation to remain with my organization	49	3.29	1.080
I would not leave my organization now, because I have a sense of obligation to it	48	3.00	1.167
Even if it were to my advantage, I do feel it would be wrong to leave my organization now	49	2.84	1.067
I would feel guilty if I left my organization now	47	2.62	1.243
<b>Aggregate Score</b>	<b>47</b>	<b>3.22</b>	<b>1.101</b>
<b>Employee Cooperation</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
I communicate frequently and accurately with other HODs (timely accurate communication)	49	3.98	0.803
Other HODs respect the work we do with (mutual respect)	49	3.73	0.908
When a problem occurs in my area of work the other HODs help me solve the problem? (problem solving)	49	3.63	1.014
Other HODs know about the work done in my department (shared knowledge)	49	3.57	0.935
Other HODs (co-workers) support the goals of my department (shared goals)	49	3.47	0.844
<b>Aggregate mean score</b>		<b>3.68</b>	<b>0.901</b>

Source: Primary Data (WASREB, 2014)

The results on Table 4.10 indicate that trust had an aggregate mean score of 3.35 and standard deviation 0.969. This implies that, there was moderate trust among the employees. Employees in WSPs in Kenya somewhat agree that they need to have a good way to keep an eye on their organization (mean=3.98, standard deviation=0.654) and also speaking freely even if they were partly to blame for a problem occurring in the organization (mean=3.80, standard deviation=0.881). These are mixed results where on one hand employees have suspicion on the employer and on the other perceive they can speak freely.

These results were consistent with the aggregate score (mean=3.35, standard deviation=0.967). This means that the employees in WSPs, neither trust nor distrust their organizations. That is, they are indifferent when it comes to trust. That was why they would not be willing to let their organization have complete control over their future in the WSP (mean=2.78, standard deviation=0.954). Perhaps this can be explained by the age and tenure of the employee in the organization, including their education level and, position held in the organization. That is 81.6% of the respondents had been in the organization for less than ten years and may not have had fully developed trust for the organization (indifference). Further, taking considerations that they are educated and holding senior positions they may be looking out for their employment elsewhere apart from WSP.

Moreover, their perception that PC state, on career advancement, was moderate (mean=3.41, standard deviation=1.085), the fact that 88% of them were less than 39 years old, with 60% holding section head position and 68% possessed a diploma and below, their prospect of career advancement in their organization may be low. That's why the PC state on dimension of career development is moderate (mean=3.41 and standard deviation=1.085) and it could have effects on employee trust for the organization. The situation may even be more aggravated by the perception that PC state item on fringe benefits above normal salary was moderate (mean=3.05, standard deviation=1.022) and the net effect is that employees neither trust nor distrust the organization. The WSPs may be required to work on the motivating factors so as to raise the level of trust from the indifference.

Loyalty was measured as the extent of loyalty feeling of employees towards their respective organizations. The result on loyalty indicated that the employees were to a great extent willing to look for ways to increase service quality and organizational efficiency (mean=4.35, standard deviation=0.723), follow established processes to work efficiently

and effectively (mean=4.22, standard deviation=0.743), did take pride in their work and gave it their best effort (mean=4.29, standard deviation=0.771) and, would enthusiastically recommend WSP's services to potential or existing customers (mean=4.15, standard deviation=0.875). The aggregate score (mean=3.80, standard deviation=0.935). These results imply that the employees had moderate loyalty to their employer (WSP).

Normative Commitment was operationalized as the extent to which the respondent feels committed to his own organization. In regard to normative commitment, the respondents moderately agree (mean=3.88, standard deviation=0.971) that their organization deserves their loyalty. Also respondents moderately agree (mean=3.69, standard deviation=1.075) that they owe great deal to their organization. But on the other hand they would slightly feel it would be wrong for them to leave their organization now, even if it were to their advantage (mean=2.84, and standard deviation=1.067) they would also slightly feel guilty if one left their organization now (mean=2.62, standard deviation=1.243). In overall, normative commitment was moderate with aggregate score mean=3.22 and standard deviation=1.101.

Cooperation on the other hand, was measured as the extent to which the respondent was willing to cooperate with other coworkers in their organization. On this item the respondents were asked to state as to whether they communicate frequently and accurately with other HODs and the result was to a great extent. That is, the extent of timely accurate communication is great with mean 3.98, standard deviation 0.803. As to whether other HODs respect the work they do with (that is mutual respect) the respondents agreed to a great extent that there is mutual respect with mean 3.73, standard deviation 0.908). In overall, all respondents agreed that there is a great extent in cooperation between themselves with the aggregate score being a mean of 3.68 and a standard deviation of 0.901.

#### **4.4 Leadership Style**

Leadership style was operationalized as the extent to which a particular leadership behavior is used in the respondent's organization. Nine items were used to measure leadership style. The results were as indicated on Table 4.11.

**Table 4.11: Means and Standard Deviations for Measures of Leadership Style**

Leadership Style	N	Mean	Std. Deviation
leadership: Institutionalized policies	48	3.58	0.919
leadership: efficient and effective	48	3.38	1.003
leadership: Instituting confidence	47	3.36	0.942
leadership: Participatory, caring	48	3.35	0.863
leadership: Leading by means of personally demonstrated values	48	3.21	1.148
leadership: Listening, coaching and teaching	47	3.19	0.924
leadership: Conservative	47	3.15	1.063
leadership: Removed, elitist	45	2.76	1.111
leadership: Motivating by fear	47	2.68	1.253
Valid N (listwise)	42	3.18	1.025

Source: Primary Data

The results indicated that leadership style is perceived by the employees as one that focuses more on institutionalized policies (mean 3.58 standard deviation 0.919), efficiency and effectiveness with mean 3.38 and standard deviation 1.003. This is consistency with the focus on service quality and efficiency and effectiveness of WSPs which is reflected in the KPIs used in organizational performance measurement.

The respondents agree that the leadership is moderate in terms of participatory, caring with mean 3.35 and, standard deviation 0.863, Instituting confidence (mean=3.36, standard deviation=0.942). Respondents also reported that the leadership was only slightly removed-elitist (mean 2.76, standard deviation 1.111) and motivating by fear (mean 2.68, standard deviation 1.253). The overall aggregate mean=3.18, and standard deviation=1.025 meaning that the respondents view the organization as democratic. The possible implication is that the respondents themselves constitute of the leadership of the organization and therefore report positively to present a good image of their leadership style.

#### **4.5 Equity Sensitivity**

The equity sensitivity was operationalized as to what the respondent would like their relationship to be with their respective organization. The relationship could either be benevolent/indifferent or equity-balanced/entitled. For benevolent, the respondents in terms of their entitlement would wish to have the organization benefit more than themselves. In the case of equity/entitlement, the respondents would wish to receive commensurate to their output or more than their contribution to the organization. In



summary, the concept has to do with the mental inclination of the respondents in terms of their relationship with the organization either by being benevolent (or indifferent to benefits they expect to receive from the organization) or equity/entitled (desire of respondents to either receive equal to their contributions or more than their contributions to the organization). The results were as shown in table 4.12.

**Table 4.12: Means and Standard Deviations for Measures of Equity Sensitivity**

<b>I would be most concerned about</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
concern for what I contributed to the organization	47	3.30	1.614
concern for what I received from the organization being equal to what I contributed to the organization	45	3.27	1.615
concern for what I received from the organization	44	2.80	1.622
Valid N (listwise)	44		
<b>It would be most important for me to</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
important for me to help others while taking care of my own needs	48	3.90	1.448
important for me to help others	44	3.68	1.625
important for me to watch out for my own good	43	2.35	2.192
Valid N (listwise)	43		
<b>The hard work I would do should</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
hard work i do should benefit me and the organization equally	48	3.98	1.376
hard work i do should benefit the organization more than myself	43	2.51	1.944
hard work i do should benefit me more than the organization	43	1.28	1.469
valid n (list wise)	43		
<b>My personal philosophy in dealing with the organization has been</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
personal philosophy: I should work hard to get more benefits	43	3.44	1.637
personal philosophy: It's better for me to give than to receive	46	3.22	1.737
personal philosophy: if I don't take care of my own interest, nobody else will	43	1.91	1.823
Valid N (listwise)	41		

Source; Primary Data

As shown in table 4.12, few indicators were used to measure equity sensitivity, On the measurement for benevolence, the mean for concern for ‘what I contributed to the organization’ was 3.30 (N=47, standard deviation=1.614), ‘important for me to help others’ was 3.68, (N=44, standard deviation=1.625), ‘hard work I do should benefit the organization more than myself’ mean was 2.51, (N = 43, standard deviation =1.944) and, personal philosophy: ‘It's better for me to give than to receive’ the mean was 3.22, (N=46, standard deviation=1.737). The result implies that the employees are moderately benevolent.

In the case of measurement for equity-balanced concerns, the results were: concern for 'what I received from the organization being equal to what I contributed to the organization' (mean 3.27, standard deviation=1.615), 'important for me to help others while taking care of my own needs' mean 3.90, standard deviation=1.448, 'hard work I do should benefit me and the organization equally' mean 3.98, standard deviation=1.376 and, personal philosophy: 'I should work hard to get more benefits' mean 3.44, standard deviation =1.637. The overall mean was 3.65 and standard deviation =1.519. This implies that the employees were to a great extent inclined to equity- balanced.

The respondents answer to the questions on entitled were as follows: 'concern for what I received from the organization' mean =2.80, standard deviation=1.622, 'important for me to watch out for my own good' mean =2.35, standard deviation=2.192, 'hard work I do should benefit me more than the organization' mean=1.28, standard deviation=1.469 and, personal philosophy, 'if I don't take care of my own interest, nobody else will' - mean=1.91, standard deviation=1.823. The total mean for entitled was 2.09 and standard deviation=1.777. This implies that the employees are slightly entitled.

Therefore, the aggregate results for benevolent the mean=3.18 and standard deviation=1.73. Whereas for equity balanced mean score was 3.65 and standard deviation=1.519. But in the case of entitled the results mean was 2.09 and standard deviation=1.777. This implies that the respondents though not mostly agreeing were to great extent equity balanced, moderately benevolent and slightly entitled.

#### **4.6 Organizational Performance**

The score for this variable was obtained from secondary data based on contracting evaluation report for the year 2012/2013. The score was based on 7 key performance indicators (KPI) namely: service coverage, non-revenue water (production efficiency), drinking water quality, and hours of supply, revenue collection efficiency, operations and maintenance, metering ratio. The drinking water quality consists of composite score of both the residual chlorine and bacteriological quality KPIs. The performance results are shown in Table 4.13.

**Table 4.13: Organizational Performance Results (Criterion)**

Water Service Provider	Performance of WSPs for 2012 to 2013 (impact report 2014)								
	Service Coverage (market share)	Non-Revenue Water	Drinking Water quality (DWQ)	Hours of Supply (% age)	Revenue collection efficiency	Operations & Maintenance	Metering ratio	Mean	Standard deviation
Nzoia Water	62.6%	60.0%	95.0%	91.7%	94.0%	105.0%	92.0%	85.8%	17.3%
Kirinyaga Water & Sanitation	29.5%	29.0%	94.5%	95.8%	94.0%	104.0%	90.0%	76.7%	32.7%
Mombasa Water	56.8%	53.0%	95.0%	25.0%	82.0%	171.0%	58.0%	77.3%	47.0%
Kakamega-Busia Water	72.4%	55.0%	86.0%	79.2%	100.0%	92.0%	76.0%	80.1%	14.6%
Kilifi Water	55.8%	53.0%	86.0%	58.3%	94.0%	92.0%	100.0%	77.0%	20.4%
Amatsi Water Services Ltd	24.0%	54.0%	78.5%	83.3%	81.0%	74.0%	50.0%	63.6%	21.9%
Kapsabet-Nandi	45.3%	51.0%	41.5%	75.0%	74.0%	94.0%	88.0%	67.0%	21.1%
Lamu Water & Sewerage	69.2%	59.0%	67.5%	25.0%	97.0%	80.0%	96.0%	70.5%	24.7%
Taita Taveta Water Company	72.3%	n.d.	44.5%	29.2%	98.0%	116.0%	75.0%	72.5%	32.3%
Nakuru Water	93.4%	54.0%	92.5%	75.0%	91.0%	112.0%	87.0%	86.4%	18.0%
Nairobi City Water & Sewerage	75.2%	62.0%	87.0%	75.0%	77.0%	126.0%	96.0%	85.5%	20.8%
Nyeri Water & Sewerage	84.8%	76.0%	93.0%	100.0%	102.0%	135.0%	99.0%	98.6%	18.6%
Limuru	40.0%	66.0%	58.5%	70.8%	94.0%	107.0%	100.0%	76.6%	24.5%
Mavoko	79.6%	62.0%	83.0%	41.7%	95.0%	132.0%	96.0%	84.2%	28.5%
Murang'a Water	78.9%	61.0%	74.5%	95.8%	98.0%	89.0%	99.0%	85.2%	14.3%
Murang'a South	44.2%	30.0%	82.0%	87.5%	97.0%	94.0%	63.0%	71.1%	26.0%
Oololaiser	27.1%	53.0%	67.0%	45.8%	97.0%	99.0%	92.0%	68.7%	28.2%
Gatanga Community	65.8%	60.0%	14.0%	33.3%	100.0%	98.0%	81.0%	64.6%	32.1%
Nyanyuki water & sewerage	91.3%	67.0%	83.5%	95.8%	81.0%	140.0%	92.0%	92.9%	22.8%
Isiolo	40.2%	57.0%	96.0%	75.0%	91.0%	106.0%	58.0%	74.7%	24.1%
Sibo	23.3%	42.0%	83.5%	66.7%	93.0%	68.0%	99.0%	67.9%	27.4%
Kericho	77.5%	63.0%	79.0%	95.8%	89.0%	87.0%	80.0%	81.6%	10.5%
Embu	62.1%	59.0%	94.5%	95.8%	94.0%	134.0%	99.0%	91.2%	25.2%
Eldoret	71.8%	68.0%	94.0%	66.7%	87.0%	100.0%	100.0%	83.9%	14.9%
Karimenu	74.2%	57.0%	37.5%	91.7%	90.0%	125.0%	100.0%	82.2%	28.9%
Thika	95.0%	70.0%	95.5%	100.0%	97.0%	107.0%	100.0%	94.9%	11.7%
Kikuyu	26.6%	55.0%	67.0%	50.0%	100.0%	87.0%	93.0%	68.4%	26.5%
Mathira	31.8%	33.0%	73.0%	95.8%	101.0%	112.0%	84.0%	75.8%	32.1%
Olkejuado	32.2%	n.d.	6.0%	n.d.	n.d.	n.d.	90.0%	42.7%	33.7%
Matunguru Kangundo	25.7%	52.0%	70.5%	50.0%	77.0%	123.0%	91.0%	69.9%	31.6%
Githunguri	25.8%	61.0%	60.0%	54.4%	93.0%	76.0%	91.0%	65.9%	23.3%
Kiambu	35.0%	59.0%	65.5%	33.3%	76.0%	95.0%	96.0%	65.7%	25.6%
Mean	55.9%	56.0%	73.3%	69.6%	91.4%	105.8%	87.8%	76.5%	77.1%
Standard Deviation	23.5%	10.8%	23.2%	24.8%	8.1%	22.3%	13.8%	11.3%	17.2%

Source: Computations from WASREB, 2014 report

**Note**

Drinking water quality (DWQ) is a composite score of both residual chlorine and bacteriological quality KPIs.

## 4.7 Tests of Hypotheses

This section presents results of the test of the hypotheses.

### 4.7.1 Relationship between Psychological State and Organizational Performance

The first objective of the study was to determine the relationship between PC State and Performance. The hypothesis related to this first objective was as follows:

*H1: There is a relationship between psychological contract state and organizational performance*

To test hypothesis H1 composite scores were computed for PC state indicators as well as performance indicators. A simple linear regression analysis was performed to test hypothesis one (H1). Results of the test are presented in Table 4.14.

**Table 4.14: Regression Results for the Influence of Psychological Contract State on Performance of Public Water Service Providers**

Model Summary						
Model	R	R Square	Adjusted R Square		Std. Error of the Estimate	
1	.488	.238	.217		.1147717	
ANOVA						
Model		Sum of Squares	df	Mean Square	F	P-value
1	Regression	.152	1	.152	11.548*	.002
	Residual	.487	37	.013		
	Total	.640	38			
Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	P-value
		$\beta$	Std. Error	Beta		
1	(Constant)	.181	.096		1.880	.068
	psychological contract state	.472	.139	.488	3.398*	.002

Predictors: (Constant), psychological contract state

Dependent Variable: performance

\*p<0.05

The results in Table 4.14 indicate a statically significant coefficient of determination ( $R^2=.238$ ,  $F=11.548$ ,  $p<.05$ ). This implies that 24% of the variation in performance was explained by variation in PC state. Furthermore, the rate of change between the two variables was also significant as shown in the table ( $\beta=.472$ ,  $t=3.398$ ,  $p<.05$ ) suggesting that performance changes by 47.2% for every unit change in psychological contract state. Thus hypothesis 1 was confirmed. This result allowed testing of the second hypothesis on mediation.

#### **4.7.2 Relationship between Psychological Contract State and Organizational Performance Mediated by Employee Outcomes**

The second objective was to establish the mediation of employee outcomes in the relationship between PC state and organizational performance. The employee outcomes were measured as composite score employee trust, loyalty, commitment and cooperation. Psychological contract state and performance were also measured using composite scores. The second hypothesis was as follows:

*H2: Relationship between psychological contract state and organizational performance is mediated by employee outcomes*

The mediation of employee outcomes in the relationship between PC state and organizational performance was tested using the Baron and Kenny's four step path analysis. The results are presented in Table 4.15. The decision rule is as follow: Results in step one must be significant for analysis to proceed to step two. The same procedure applies to step two and three. If the results are not significant at any of the three steps, the process would be terminated and it would be concluded that the relationship was not mediated as hypothesized. In step four, where performance is regressed on psychological contract state and employee outcome, mediation is confirmed only if the effect of psychological contract state on performance is insignificant in presence of employee outcomes.

**Table 4.15: Regression results for the mediation of employee outcomes in the relationship between Psychological Contract State and Organizational Performance**

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	p-value
1	.488	.238	.217	.1147717					
2	.559	.313	.289	.10695					
3	.396	.157	.128	.1276479	.157	5.386	1	29	.028
4	.597	.357	.311	.1134545	.200	8.710	1	28	.006
ANOVA									
Model		Sum of Squares	df	Mean Square	F				p-value
1	Regression	.152	1	.152	11.548**				.002
	Residual	.487	37	.013					
	Total	.640	38						
2	Regression	.151	1	.151	13.201**				.001
	Residual	.332	29	.011					
	Total	.483	30						
3	Regression	.088	1	.088	5.386*				.028
	Residual	.473	29	.016					
	Total	.560	30						
4	Regression	.200	2	.100	7.764**				.002
	Residual	.360	28	.03					
	Total	.560	30						
Coefficients									
Model		Unstandardized Coefficients		Standardized Coefficients	t	p-value			
		Beta	Std. Error	Beta					
1	(Constant)	.181	.096		1.880	.068			
	psychological contract state (PCS)	.472	.139	.488	3.398**	.002			
2	(Constant)	.343	.100		3.431	.002			
	psychological contract state	.532	.146	.559	3.633**	.001			
3	(Constant)	.201	.131		1.539	.135			
	employee outcomes (EO)	.426	.184	.396	2.321*	.028			
4	(Constant)	.058	.126		.459	.650			
	employee outcomes	.101	.197	.094	.514	.611			
	psychological contract state	.553	.187	.540	2.951*	.006			

Model 1:( $OP = I_1 + \beta_2 PCS + \varepsilon_1$ ) Predictors: (Constant), psychological contract state

Model 2:( $EO = I_2 + \beta_3 PCS + \varepsilon_2$ ) Predictors: (Constant), psychological contract state

Dependent Variable: employee outcomes

Model 3:( $OP = I_3 + \beta_4 EO + \varepsilon_3$ ) Predictors: (Constant), employee outcomes

Model 4 Predictors: (Constant), employee outcomes, psychological contract state

( $OP = I_4 + \beta_5 EO + \beta_6 PCS + \varepsilon_4$ )

Dependent Variable: organizational performance(OP)

\* $p < .05$ ; \*\* $p < .01$  and  $I_i$ =estimate of intercepts,  $\beta_j$ =beta coefficients  $\varepsilon_k$ =error term

The results of step 1 (model 1) presented in Table 4.15 indicate a significant effect of PC state on the performance ( $R^2=.238$ ,  $F=11.548$ ,  $p<.05$ ). The findings show that 23.8% of variation in organizational performance is due to PC State. The significance of the influence of PC state on organizational performance was further confirmed by the results of the test of regression coefficient ( $\beta=.472$ ,  $t=3.398$ ,  $p<.05$ ). The finding thus confirmed the first step in testing for mediation. The results for analysis were significant and thus step two can proceed.

The second step involved regression of employee outcomes on PC State. The results are presented in table 4.14 (model 2). As shown in the table, 31.3% of variation in employee outcomes is explained by PC State ( $R^2=.313$ ,  $F=13.201$ ,  $p<.01$ ). The value of  $R^2$  (31.3%) implies that 68.7% in employee outcomes is due to other factors not included in the study. For every unit change in PC State there is a corresponding 53.2% change in employee outcomes ( $\beta=.532$ ,  $t=3.633$ ,  $p<.01$ ). The results confirmed the second step in testing for mediation and this allow the third step.

The third step involved regressing organizational performance on employee outcomes. Results for third step are presented in table 4.15 (model 3). It is evident from these findings that 15.7% of variance in organizational performance is due to employee outcomes ( $R^2=.157$ ,  $F=5.386$ ,  $p<.05$ ). Hence 84.3% of variation in organizational performance is due to other factors not included in the model. Furthermore, a unit change in employee outcomes is associated with 42.6% of variation in organizational performance ( $\beta=.426$ ,  $t=2.321$ ,  $p<.05$ ). The findings confirmed step three in testing for mediation.

In the fourth step, organizational performance was regressed on employee outcomes and PC state at the same time. The results are presented in Table 4.15 (model 4 with  $R^2=.357$ ,  $F=7.764$ ,  $p<.05$ ); meaning that 35.7% of variation in organization performance is due to both employee outcomes and psychological contract state. Mediation by employee outcomes in the relationship between PC state and organizational performance was not confirmed since the effect of PC state on organizational performance, in the presence of employee outcomes, was insignificant. In this study the effect of PC state on organizational performance, in the presence of employee outcomes is significant, ( $\beta=.0553$ ,  $t=2.951$ ,  $p<.01$ ). This implies a unit change in psychological contract causes 55.3 % change in organizational performance when employee outcome is factored in. Hence the results confirm partial mediation. Thus, the hypothesis that the relationship between PC state and organizational performance was mediated by employee outcomes was partially supported.

### **4.7.3 Equity Sensitivity, Psychological Contract State and Organizational Performance**

The third objective was to determine the moderating influence of equity sensitivity on the relationship between PC state and organizational performance. The hypothesis drawn from this objective was that the effect of PC state on organizational performance is moderated by employees' equity sensitivity disposition. The theoretical basis of this hypothesis is that people have different dispositions about their input to the organization compared to outcome in terms of rewards they get thereof. Hence, equity sensitivity measures were computed as a composite value of the mean of the perceptions of employee sensitivity towards the ratio of his/her inputs to outcomes accruing to him/her.

The hypothesis H3 was tested using Baron and Kenny three step method for testing moderation. The process was as follows:

Step 1: organizational performance was regressed on PC state

Step 2: equity sensitivity was added in the regression model

Step 3: interaction between PC state and equity sensitivity was then added in the regression model.

The hypothesis stated that:

*H3: The effect of PC state on organizational performance is moderated by employees' equity sensitivity disposition*

The results for the test of the moderating effect of equity sensitivity on the relationship between PC state and organizational performance are presented in Table 4.16.



**Table 4.16: Summary Results for the Effect of Equity Sensitivity on the Relationship between Psychological Contract State and Organizational Performance**

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	p-value F Change
1	.488	.238	.217	.1147717					
2	.526	.277	.227	.1068705	.277	5.546	2	29	.009
3	.532	.283	.206	.1082693	.007	.255	1	28	.617
ANOVA									
Model			Sum of Squares	df	Mean Square	F	p-value		
1	Regression		.152	1	.152	11.548*	.002		
	Residual		.487	37	.013				
	Total		.640	38					
2	Regression		.127	2	.063	5.546*	.009		
	Residual		.331	29	.011				
	Total		.458	31					
3	Regression		.130	3	.043	3.687*	.024		
	Residual		.328	28	.012				
	Total		.458	31					
Coefficients									
Model				Unstandardized Coefficients		Standardized Coefficients	t	p-value	
				B	Std. Error	Beta			
1	(Constant)			.181	.096		1.880	.068	
	psychological contract state			.472	.139	.488	3.398*	.002	
2	(Constant)			.183	.104		1.755	.090	
	psychological contract state			.484	.147	.528	3.291*	.003	
	equity sensitivity			-.007	.089	-.013	-.081	.936	
3	(Constant)			.164	.112		1.464	.154	
	psychological contract state			.518	.164	.565	3.167*	.004	
	equity sensitivity			-.011	.090	-.019	-.118	.907	
	psychological contract state X equity sensitivity			-.010	.019	-.089	-.505	.617	

Predictors: (Constant), psychological contract state

Predictors: (Constant), equity sensitivity, psychological contract state

Predictors: (Constant), equity sensitivity, psychological contract state, psychological contract state - equity sensitivity interaction

Dependent Variable: organizational performance

\*p<.05

The findings in Table 4.16 indicate that the overall model was significant ( $R^2=.283$ ,  $F=3.687$ ,  $p<.01$ ). In step one, organizational performance was regressed on PC state and the findings were that 23.8% change in organizational performance is caused by PC state ( $R^2=.238$ ,  $F=11.548$ ,  $p<.01$ ). Furthermore, a unit change in PC State is associated with 47.2% change in organizational performance ( $\beta=47.2$ ,  $t=3.398$ ,  $p<.01$ ). In the second step,

Equity Sensitivity was added to the regression equation in step 1 as indicated in table 4.15, the influence of PC state on organizational performance was significant ( $\beta=.484$ ,  $t=3.291$ ,  $p<.01$ ). But the influence of equity sensitivity on organizational performance was insignificant ( $\beta=-.007$ ,  $t=-.081$ ,  $p>.05$ ).

On addition of the interaction term in the regression equation in step 3, there was a very slight change in  $R^2$  which was not significant ( $R^2$  change=.007, sig. F change>.05). The influence of PC state on organizational performance was significant ( $\beta=.518$ ,  $t=3.167$ ,  $p<.05$ ). But the influence of equity sensitivity was insignificant ( $\beta=-.011$ ,  $t=-.118$ ,  $p>.05$ ) also, the interaction between PC state and Equity Sensitivity was insignificant ( $\beta=-.010$ ,  $t=-.505$ ,  $p>.05$ ). The outcome thus did not support the hypothesis that the effect of PC state on the organizational performance was moderated by equity sensitivity.

#### **4.7.4 Leadership Style, Psychological Contract State and Employee outcomes**

The fourth objective of the study sought to determine the moderating influence of Leadership style on the relationship between PC State and organizational performance. The leadership style variable was measured as a composite value of the scores of leadership styles such as democratic and autocratic. This objective gave rise to hypothesis four:

*H4: The influence of psychological contract state on organizational performance is moderated by leadership style of the management*

Hypothesis four was tested using the following Baron and Kenny three step method for testing moderation:

Step 1: organizational performance was regressed on PC state

Step 2: leadership style was added in the regression model

Step 3: interaction between PC state and leadership style was added in the regression model.

The results of the tests are presented in table 4.17.

**Table 4.17: Stepwise Regression Results for the Test of the Effect of Leadership Style on the Relationship between Psychological Contract State and Organizational Performance**

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	p-value F Change
1	.488	.238	.217	.1147717					
2	.511	.261	.210	.1077607	.261	5.119	2	29	.012
3	.515	.266	.187	.1093136	.005	.182	1	28	.673
ANOVA									
Model			Sum of Squares	df	Mean Square	F	p-value		
1	Regression		.152	1	.152	11.548*	.002		
	Residual		.487	37	.013				
	Total		.640	38					
2	Regression		.119	2	.059	5.119*	.012		
	Residual		.337	29	.012				
	Total		.456	31					
3	Regression		.121	3	.040	3.377*	.032		
	Residual		.335	28	.012				
	Total		.456	31					
Coefficients									
Model				Unstandardized Coefficients		Standardized Coefficients	t	p-value	
				B	Std. Error	Beta			
1	(Constant)			.181	.096		1.880	.068	
	psychological contract state			.472	.139	.488	3.398*	.002	
2	(Constant)			.198	.103		1.915	.065	
	psychological contract state			.415	.185	.482	2.244*	.033	
	leadership style			.039	.198	.042	.196	.846	
3	(Constant)			.212	.110		1.927	.064	
	psychological contract state			.415	.187	.483	2.216*	.035	
	leadership style			.007	.214	.008	.034	.973	
	psychological contract state X leadership style interaction			.007	.016	.077	.426	.673	

- 1) Predictors: (Constant), psychological contract state
  - 2) Predictors: (Constant), leadership style, psychological contract state
  - 3) Predictors: (Constant), leadership style, psychological contract state, interaction between psychological contract state and leadership style interaction
  - 4) Dependent Variable: organizational performance
- \*P<.05

The results presented in table 4.17 indicate a significant relationship between PC state, leadership and organizational performance ( $R^2=.261$ ,  $F=5.119$ ,  $p<.05$ ); meaning 26.1% of organizational performance is due to psychological contract state. However, while the influence of PC state on performance was significant ( $\beta=.415$ ,  $t=2.244$   $p<.05$ ; that is 41.5% variation in organizational performance is as a result of a unit change in PC state), the influence of leadership style on organizational performance was insignificant ( $\beta=.039$ ,  $t=.196$ ,  $p>.05$ ).

The introduction of the interaction term had very little effect on performance ( $R^2$  change  $=.005$ ,  $F=.182$ ,  $p$  change  $>.05$ ). However, the overall regression model was significant ( $R^2=.266$ ,  $F=3.377$ ,  $p<.05$ ). The influence of PC state on organizational performance at the third stage of the analysis was significant ( $\beta=.415$ ,  $t=2.216$ ,  $p<.05$ ).

The influence of leadership style on organizational performance was insignificant ( $\beta=.007$ ,  $t=.034$ ,  $p>.05$ ). Likewise the interaction between PC state and leadership style had insignificant effect on organizational performance ( $\beta= .007$ ,  $t=.426$ ,  $p>.05$ ) and thus hypothesis 4 was not confirmed.

#### **4.7.5 The Joint Effect of Psychological Contract State, Employee Outcomes, Equity Sensitivity and Leadership Style on Organizational Performance**

The fifth objective of the study was to determine the combined effect of PC state, employee outcomes, equity sensitivity and leadership style on organizational performance. This relationship was represented by the following hypothesis:

*H5: The joint effect of psychological contract state, employee outcomes, equity sensitivity and leadership style is greater than their individual effects on organizational performance.*

This hypothesis was tested using multiple regression analysis. The results are presented in Table 4.18

**Table 4.18: Results of Joint Effect of PC State, Employee Outcomes, Equity Sensitivity and Leadership Style on Organizational Performance**

Model Summary									
Predictor Variable	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	P-value F Change
1	.553	.306	.271	.0906411	.306	8.823	1	20	.008
2	.573	.329	.258	.0914782	.022	.636	1	19	.435
3	.593	.351	.243	.0923735	.023	.634	1	18	.436
4	.594	.353	.201	.0949210	.002	.047	1	17	.831
ANOVA									
Predictor Variable		Sum of Squares	df	Mean Square	F	P-value			
1	Regression	.072	1	.072	8.823*	.008			
	Residual	.164	20	.008					
	Total	.237	21						
2	Regression	.078	2	.039	4.649*	.023			
	Residual	.159	19	.008					
	Total	.237	21						
3	Regression	.083	3	.028	3.251*	.046			
	Residual	.154	18	.009					
	Total	.237	21						
4	Regression	.084	4	.021	2.321**	.099			
	Residual	.153	17	.009					
	Total	.237	21						
Coefficients									
Predictor Variable		Unstandardized Coefficients		Standardized Coefficients	t	P-value			
		$\beta$	Std. Error	Beta					
1	(Constant)	.203	.095		2.141	.045			
	psychological contract state	.420	.141	.553	2.970*	.008			
2	(Constant)	.130	.132		.985	.337			
	psychological contract state	.337	.176	.445	1.917*	.070			
	employee outcomes	.184	.230	.185	.797	.435			
3	(Constant)	.126	.134		.943	.358			
	psychological contract state	.361	.180	.476	2.005*	.060			
	employee outcomes	.247	.246	.249	1.004	.329			
	equity sensitivity	-.085	.107	-.174	-.796	.436			
4	(Constant)	.127	.137		.925	.368			
	psychological contract state	.377	.198	.496	1.900*	.074			
	employee outcomes	.276	.286	.278	.964	.349			
	equity sensitivity	-.084	.110	-.173	-.770	.452			
	Leadership	-.050	.231	-.062	-.216	.831			

1. Predictors: (Constant), psychological contract state

2. Predictors: (Constant), psychological contract state, employee outcomes

3. Predictors: (Constant), psychological contract state, employee outcomes, equity sensitivity

4. Predictors: (Constant), psychological contract state, employee outcomes, equity sensitivity, leadership style

5. Dependent Variable: performance

\*P<.05

As shown in the table the results of the test of the joint effect of psychological contract state, employee outcomes, equity sensitivity and leadership style on organizational performance was significant as shown in the overall model ( $R^2=0.353$ ,  $F=2.321$ ,  $p<0.1$ ). However the F change was insignificant ( $F \text{ change}=0.047$ ,  $p>0.1$ ). Meanwhile, the individual effect of each variable on the criterion variable (organizational performance) in the presence of the other variables was as presented in Table 4.18 regression coefficients.

The influence of PC state on organizational performance in the presence of employee outcomes, equity sensitivity and leadership style showed a significance relationship ( $B=.377$ ,  $t=1.900$ ,  $p<0.05$ ). The effect of employee outcomes on organizational performance in the presence of PC state, equity sensitivity and leadership style was insignificant ( $B=.276$ ,  $t=0.964$ ,  $p>0.1$ ). The impact of equity sensitivity on organizational performance in the presence of PC state, employee outcomes and leadership style was not significant ( $B=-0.084$ ,  $t=-0.770$ ,  $p>0.1$ ). Leadership style influence on organizational performance in the presence of PC state, employee outcomes and equity sensitivity was insignificant ( $B=-.050$ ,  $t=-0.216$ ,  $p>0.1$ ).

Thus only PC state had significant impact on organizational performance in the presence of employee outcomes, equity sensitivity and leadership style ( $B=.377$ ,  $t=1.900$ ,  $p<0.1$ ). The overall model showed the results indicated that, there was significance influence of the joint effect of psychological contract state, employee outcomes, equity sensitivity and leadership style on performance ( $R^2=0.353$ ,  $F=2.321$ ,  $p<0.1$ ). Since F change was insignificant ( $F \text{ change}=0.047$ ,  $p>0.1$ ) the results partially confirmed the hypothesis five.

#### **4.8 Discussion of the Findings**

Research findings are discussed in this section. The results are discussed under relevant objectives. Consistency of the results with the findings of previous studies and implications for theory are addressed.

##### **4.8.1 The Relationship between PC State and Performance**

Based on objective one, it was hypothesized that there is a relationship between PC state and organizational performance. This hypothesis was confirmed. The model was significant ( $R^2=0.238$ ,  $F=11.548$ ,  $p<0.05$ ). The regression coefficients were equally significant ( $B=.472$ ,  $t=3.398$ ,  $p<0.05$ ). The results indicate a linear relationship between PC State and organizational performance. These findings support are consistent with Argyris

(1960) proposition that PC state has a relationship with high performance and low grievances. However the results are inconsistent with the finding by Jurek (1968) study which had established that the relationship between PC state and performance was not linear. At the same time their results support the RBT and SET theoretical anchorage that building internal relationship architecture (Kay, 1995) or strong relationship (Crozanpano & Mitchell, 2005) through fulfilling promises made to employees has impact on organizational performance.

#### **4.8.2 Mediation of Employee Outcomes in the Relationship between PC state and Organizational Outcome**

Hypothesis two, drawn from objective two state, that the relationship between PC state and organizational performance is mediated by employee outcomes. This hypothesis was not confirmed. Although the mediation of employee outcomes in the relationship between PC state and organizational performance was not confirmed, an observation was made on the behavior of employee outcomes in the presence of PC State. Step 3 of the stepwise regression analysis, the influence of employee outcomes on organizational performance yielded a beta coefficient of the value 0.426 which was significant at  $p < 0.05$ . However upon entering PC state in the regression equation the beta coefficient diminished from 0.426 to 0.101. That is, a unit change in employee outcomes is associated with 42.6% change in organizational performance. But in presence of PC state in step 4 the effect of an unit change in employee outcomes on organizational performance diminished to from 42.6% to 10.1%.

The foregoing observation implies that employee outcomes depend on PC State, which is opposite hypothesis 2 which states that the relationship between PC state and organizational performance is mediated by employee outcomes. This alternative hypothesis was tested in post hoc analysis in table 4.19. The fact that the influence of employee outcomes on organizational performance became insignificant in the presence of PC state implies the possibility of PC state mediates the relationship between employee outcomes and performance as opposed to what is implied by hypothesis 2. However, this remains a plausible assumption until tested empirically. This alternative hypothesis was tested in post hoc analysis in in table 4.19. This result was also supported by the significant positive change in the explanatory power of the model ( $R^2$  change=.200,  $F$  change=8.710,  $p < .05$ ) at the third stage in the process of testing for mediation. The matter required further investigation of this study.

Study by Jurek (1968) showed no linear relationship between PC state and performance in sales. The results of current study support a direct relationship between PC state of employees in management positions and performance of the WSPs in Kenya. Further the results of this study contradict the results by Jurek (1968) that there is no linear relationship between PC state and organizational performance. However, these findings are consistent with study by Katau (2013) which established the link between HR practices, PC fulfillment, and organizational performance.

#### **4.8.3 Moderating Role of Equity Sensitivity**

Drawing from objective three, hypothesis was formulated. It state that, the relationship between PC State and Organizational Performance is moderated by Equity Sensitivity. The method used to test this hypothesis involved three steps, in a hierarchical regression analysis. This result of the moderation by Equity Sensitivity on the relationship between PC State and Organizational Performance was not supported. But results indicate that  $R^2$  change was significant ( $R^2$  change=.277,  $F$  change=5.546,  $P<.01$ ) and the overall model remained significant ( $R^2=.283$ ,  $F= 3.687$ ,  $<.05$ ).

The findings (table 4.16) indicate that 28.3% of organization performance is associated with unit of psychological contract and equity sensitivity ( $R^2=.283$ ,  $F=3.687$ ,  $p<.05$ ). In presence of equity sensitivity and interaction term, unit change in PC state causes 51.5% of organizational performance ( $B=.518$ ,  $t=3.167$ ,  $p<.05$ ). However in the presence of both PC state and interaction term, unit change in equity sensitivity was caused by an insignificant negative 1.0% change in organizational performance. The interaction term (product of PC state and equity sensitivity) was insignificant in the presence of both PC state and equity sensitivity ( $B=-.10$ ,  $t=-0.505$ ,  $p>.05$ ). Therefore the relationship between PC state and organizational performance is not moderated by equity sensitivity of employees. The hypothesis was not confirmed.

#### **4.8.4 Moderating Role of Leadership style in the Relationship between Psychological Contract and Organizational Performance**

The objective was to find out the moderating effect of leadership style on the relationship between psychological contract state and organizational performance. The method used to test this hypothesis involved three steps using hierarchical regression analysis. The hypothesis stated that the influence of PC state on organizational performance depends on leadership style of the management. The result of the test of moderation on the relationship between PC state and organizational performance by leadership style was not confirmed.



The overall regression model was significant ( $R^2=.266$ ,  $F=3.377$ ,  $p<.05$ ) as per table 4.17. That is, 26.6% of organizational performance is due to leadership style, psychological contract and the interaction between them. The influence of PC state in the presence of leadership style and the interaction term between PC state and leadership style was significant ( $B=.415$ ,  $t=2.216$ ,  $p<.05$ ). This means a unit change in PC state is associated with 41.5% change in organizational performance. However, the influence of leadership style in the presence of PC state and the interaction between both variables was insignificant ( $B=.007$ ,  $t=.034$ ,  $p>.05$ ). The influence of the interaction between PC state and leadership style was insignificant ( $B=.007$ ,  $t=.426$ ,  $p>.05$ ). Thus the moderation of leadership style in the relationship between PC state and organizational performance was not confirmed. It is also notable that the influence of PC state ( $B=.415$ ) is consistent in both model 2 and also 3 where leadership style is factored in. The PC state in this model appears to play another role other than that of independent variable. This will require further investigation.

#### **4.8.5 The joint effect of Psychological Contract State, Employee Outcomes, Equity Sensitivity and Leadership Style on Organizational Performance**

The results in Table 4.18 indicate that the joint effect of PC state, employee outcomes, equity sensitivity and leadership style on organizational performance is not statistically significant. However, although insignificant, there is an indication that equity sensitivity is greater in terms of the magnitude of influence on organizational performance ( $B=0.237$ ) followed by PC State ( $B=0.138$ ), then leadership ( $B=0.137$ ) and finally employee outcomes ( $B=-0.001$ ) have the least magnitude of influence.

PC state contributes 30.6% of organizational performance whereas the remaining 69.4% is due to other variables not considered in this study ( $R^2=.306$ ,  $F=8.823$ ,  $p<.05$ ). A unit variation in PC state is associated with 42% change in organizational performance ( $B=.420$ ,  $t=2.970$ ,  $p<.05$ ). When PC state and employee outcomes are factored together in the regression they jointly contribute 32.9% (2.3% increase) of organizational performance ( $R^2=.329$ ,  $F=4.649$ ,  $p<.05$ ) in this study. The 35.1% (2.2% rise) of organizational performance is due the combination of PC state, employee outcomes and equity sensitivity in the study ( $R^2=.351$ ,  $F=3.251$ ,  $p<.05$ ). Finally PC state, employee outcomes, equity sensitivity and leadership style jointly causes 35.3% (0.2% increase) of organizational

performance ( $R^2=.353$ ,  $F=2.321$ ,  $p<.1$ ). The employee outcomes are associated with the highest increase in organizational performance, followed by equity sensitivity and lastly leadership style. However the coefficients of correlations were all insignificant except for the PC state. Although insignificant ( $p>.05$ ) the correlation coefficients, when the other variables are added into the regression model, the employee outcomes increases from  $B=.184$  to  $B=.276$  while equity sensitivity has small increase from  $B=-.085$  to  $B=-.084$ .

#### **4.9 Post Hoc Analysis**

Post hoc data analysis of hypothesis two (H2) was conducted in this section. Post hoc analysis is a procedure used to examine data after analytical tests designed earlier have been done and results obtained. It is triggered by the findings that are contrary to earlier predictions. Post hoc analysis focuses on patterns or relationships emerging from data analysis which were not specified a priori.

At the stage of conceptualization of this study, it seemed logical to expect that psychological contract state (promises, fulfillment of promises), employee outcomes (trust, loyalty, commitment and cooperation) and organizational performance (composite index of financial and non-financial outcomes) would be related sequentially. However, the findings of the study failed to confirm the expectation. In other words, in step 4 of the test of hypothesis two (H2) on mediation of employee outcomes in the relationship between PC state and performance of WSPs it was expected that the effect of PC state on performance would be insignificant in the presence of the employee outcomes (mediator), while the effect of the mediator (employee outcomes) on performance would be significant. Instead, the converse was true in that the effect of PC state and not employee outcomes on performance was significant (see the specific findings on Table 4.15). This lead to re-examination of research findings for a clue on the behavior of the data with respect to variables of interest mentioned above.

Close scrutiny of research findings presented in Table 4.15 reveal that whereas employee outcomes (mediator variable) had a significant effect on organizational performance in absence of PC state in step 3 ( $B=.396$ ,  $t=2.321$ ,  $p<.05$ ), its effect on organizational performance in step 4, in the presence of PC State, was drastically reduced and insignificant ( $B=.094$ ,  $t=.514$ ,  $p>.05$ ). Interestingly, the effect of PC State on performance increased by a large margin in the presence of employee outcomes in step 4 ( $B=.540$ ,

$t=2.951, p<.05$ ) compared to its value in the absence of employee outcomes in step one ( $B=.488, t=3.398, p<.05$ ). The message from the above is that the effect of PC State is stronger in the presence of employee outcomes while the effect of the employee outcomes diminishes drastically in the presence PC State.

Clearly, the behavior of PC State and employee outcomes indicate role reversal for the two variables. In other words, it is the employee outcomes that appear to play the role of independent variable while the PC State is the mediator. This new conceptualization leads to a revised conceptual framework presented as Figure 5.1. Based on this new model it is hypothesized as follows:

*H1a: There is a relationship between employee outcomes and organizational performance.*

*H2a: There is an indirect relationship between employee outcomes and organizational performance through psychological contract state.*

This hypothesis was tested using the analytical procedure proposed by Baron and Kenny (1986) and Kenny (2015). The same procedure was to test the original form of hypothesis two with psychological contract state as the independent variable and employee outcomes as the mediating variable.

**Table 4.19: Regression Results for the Mediation of Psychological Contract State in the Relationship between Employee Outcomes and Organizational Performance**

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	p F Change
1	.396	.157	.128	.1276479					
2	.559	.313	.289	.11248					
3	.592	.351	.328	.1120058	.351	15.661***	1	29	.000
4	.597	.357	.311	.1134545	.006	.264	1	28	.611
ANOVA									
		Sum of Squares		df	Mean Square	F	p-value		
1	Regression	.088		1	.088	5.386*	.028		
	Residual	.473		29	.016				
	Total	.560		30					
2	Regression	.167		1	.167	13.201**	.001		
	Residual	.367		29	.013				
	Total	.534		30					
3	Regression	.196		1	.196	15.661***	.000		
	Residual	.364		29	.013				
	Total	.560		30					
4	Regression	.200		2	.100	7.764**	.002		
	Residual	.360		28	.013				
	Total	.560		30					
Coefficients									
PREDICTORS		Unstandardized Coefficients		Standardized Coefficients		t	p-value		
		$\beta$	Std. Error	Beta ( $\beta$ )					
1	(Constant)	.201	.131			1.539	.135		
	employee outcomes	.426	.184	.396		2.321*	.028		
2	(Constant)	.259	.115			2.251	.032		
	employee outcomes	.588	.162	.559		3.633**	.001		
3	(Constant)	.093	.105			.883	.385		
	psychological contract state	.607	.153	.592		3.957***	.000		
4	(Constant)	.058	.126			.459	.650		
	psychological contract state	.553	.187	.540		2.951**	.006		
	employee outcomes	.101	.197	.094		.514	.611		

1 Predictors: (Constant), employee outcomes

2 Predictors: (Constant), employee outcomes

Dependent Variable: psychological contract state

3 Predictors: (Constant), psychological contract state

4 Predictors: (Constant), psychological contract state, employee outcomes

Dependent Variable: organizational performance

\*p<.05, \*\*p<.01, \*\*\*p<.001

The results in table 4.19 show that regression model fit the data. Furthermore 15.7% of the variation in organizational performance is attributed to psychological contract state ( $R^2=.157$ ,  $F=5.386$ ,  $p<.05$ ). The coefficient is significant ( $\beta=.426$ ,  $t=2.321$ ,  $p<.05$ ) which implies that 42.6% of change in organizational performance is due to unit change in employee outcome. This result confirms the first step in testing for mediation which requires a significant relationship between independent variable (employee outcome) and the dependent variable (organizational performance of WSPs) as a condition for proceeding to the next step in the process.

In the second step, employee outcomes were regressed on PC state composite. The results are presented in Table 4.18. The findings showed a relationship between employee outcomes and PC state ( $R^2=.313$ ,  $F=1.3201$ ,  $p<.05$ ). The beta coefficient for this test was also significant ( $\beta=.588$ ,  $t=3.633$ ,  $p<0.5$ ). This result confirmed the second step in testing for mediation.

In the third step, organizational performance was regressed on PC State. Results are presented in Table 4.19 (model 3). It is evident from these findings that 35.1% of variance in organizational performance is due to PC state ( $R^2=.351$ ,  $F=15.661$ ,  $p<.001$ ). Hence 64.9% of organizational performance is due to other factors not included in the model. Furthermore, a unit change in PC is associated with 60.7% of change in organizational performance ( $\beta=.607$ ,  $t=3.957$ ,  $p<.001$ ). The findings confirmed step three in testing for mediation.

In the fourth step, organizational performance was regressed on both PC state and employee outcomes using a multiple regression model. The results are presented in table 4.19 (model 4). The mediation by PC state in the relationship between employee outcomes and organizational performance would be confirmed if the effect of employee outcomes on organizational performance is insignificant in the presence of PC state. The results showed that the effect of employee outcomes on organizational performance is insignificant in the presence of PC state ( $\beta=.101$ ,  $t=.514$ ,  $p>.05$ ). These results show clearly that the effect of employee outcomes on organizational performance is indirect through PC state. This implies that the earlier conceptualization in which PC State was presented as an independent variable and employee outcomes as mediating variable in the relationship between PC state and organizational performance was not correct.

The findings indicate further that PC state (satisfaction of promissory expectations) dimension of PC state mediate the relationship between the composite score of the independent variable. That is employee outcomes (namely trust, loyalty, commitment and cooperation) and the dependent variable organizational performance. The available empirical literature shows a link between PC state and certain aspects of employee attitudes and behavior (OCB, in role performance, commitment, workplace deviance, loyalty etcetera); but it does not indicate the direction of the relationship (Shapiro & Kessler, 2000: Kickul & Lester, 2001: Turnley, et al., 2003: Turnley, & Feldman, 2003: Restubog, Bordia & Tang, 2007: Chen, Tsui & Zhong, 2008). This study now demonstrates that the PC state is an explanatory variable in the relationship between the employee outcomes and organizational performance (financial and non-financial). The findings confirm social exchange theory axiom that an action, for example PC state, elicits a response in behavior which in this study is referred to as employee outcomes. Furthermore the findings support RBT assumption that high performance and SCA is accomplished through IRA. The IRA in the current study is achieved through employee outcomes as a result of the PC state of employees.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This is the last chapter of this thesis. It has the summary of the research results, the conclusions and recommendations based on the research objectives. The initial part consists of the summary of the basic findings and conclusions which focus on the five objectives and their corresponding hypotheses. At the end of the chapter, recommendations from the study implications of the study for theory, policy and practices are suggested. The final exposition on challenges and limitations of the study is presented and suggestions for further studies proposed in the latter parts.

#### **5.2 Summary of Research Findings**

The main goal of the study was to find out if the relationship between psychological contract state and performance of WSPs in Kenya is mediated by employee outcomes and moderated by equity sensitivity and leadership style. Five specific research objectives were derived for the purpose of accomplishing the overall goal. The findings of this study were analyzed and discussed in chapter four. The analysis and discussions were structured around the five objectives and their corresponding hypotheses shown in Table 3.3 and the summary of the research results are as presented in Table 5.1. After an extensive literature review of both theoretical and empirical studies, knowledge gaps in the studies of psychological contract were identified. Then a conceptual model was developed linking PC state to organizational performance. It was posited that the relationship is mediated by employee outcomes and moderated by both equity sensitivity and leadership style. On the basis of the objectives and the conceptual model, the hypotheses were derived and then tested.

Table 5.1 is a summary of the results showing the five objectives and the corresponding hypotheses of the study. There were only three hypotheses out of the five hypotheses (pre-analysis conceptualization) that were supported. A post hoc analysis was performed on a hypothesis 1a and 2a and both were supported. The subsections 5.2.1 to 5.2.5 cover the elaborate discussion of results summary.

**Table 5.1: Summary of the Objectives, Hypotheses and Research Findings**

Objective		Hypothesis	Results	Decision
<b>1</b>	To determine the relationship between PC state and organizational performance	H1: There is a significant relationship between PC state and organizational performance	There is statistically significant relationship between PC state and organizational performance	Hypothesis was supported
<b>2</b>	To establish the mediating effect of employee outcomes on the relationship between PC state and organizational performance	H2: The relationship between psychological contract state and organizational performance is mediated by employee outcomes	Employee outcomes do have partial mediating influence on the relationship between PC state and organizational performance	Hypothesis was partially supported
<b>3</b>	To determine the moderating influence of equity sensitivity on the relationship between PC state on organizational performance	H3: The effect of PC State on organizational performance is moderated by equity sensitivity disposition of employees	Equity sensitivity does not moderate relationship between PC state and employee outcomes	Hypothesis was not supported
<b>4</b>	To establish the moderating effect of leadership style on the relationship between PC state and the organizational performance	H4: The influence of PC state on organizational performance is moderated by leadership style	Leadership style does not moderate the relationship between PC state and employee outcomes	Hypothesis was not supported
<b>5</b>	Find out the combined effect of PC state, employee outcomes, equity sensitivity and leadership style on organizational performance	H5: The joint effect of psychological contract state, employee outcomes, equity sensitivity and leadership style is greater than their individual effects on organizational performance	The combination of PC state, employee outcomes, equity sensitivity and leadership style has statistically significant influence that is greater than their individual effects on organizational performance	Hypothesis was supported
<b>Post Hoc Analysis</b>				
<b>1a</b>	To determine the relationship between employee outcomes and organizational performance	H1a: There is a significant relationship between employee outcomes and organizational performance	There is statistically significant relationship between employee outcomes and organizational performance	Hypothesis was supported
<b>2a</b>	To establish the mediating effect of PC state on the relationship between employee outcomes and organizational performance	H2a: There is an indirect relationship between Employee Outcomes and Organizational Performance through Psychological Contract State	PC State has significant mediating influence on the relationship between employee outcome and organizational performance	Hypothesis was supported

Source: Primary Data

1 and 2: based on pre-analysis conceptualization

1a and 2a: based on post hoc conceptualization



### **5.2.1 Psychological Contract State and Organizational Performance**

The first objective was to determine the relationship between PC state and organizational performance. The earliest study by (Argyris, 1960) suggested a relationship between PC state and high production but the empirical study by Jurek (1968) did not find any relationship. However the current study has applied much wider range of Herzberg's two factor needs, criterion with broader dimensions and a bigger population in different context. The corresponding hypothesis stated that: there is a relationship between PC state and organizational performance.

The results showed that 23.8% in performance of WSPs is due PC state meanwhile 76.7% can be attributed to other variable not indicated in the model ( $R^2=.238$ ,  $F=11.548$ ,  $p<.05$ ). The elasticity of the model showed that a unit change in PC state causes to 47.2% change in performance of the WSPs ( $\beta=.472$ ,  $t=3.398$ ,  $p<.05$ ). Therefore the first hypothesis was supported and was consistent with observations made by Argyris (1960); but it did not support the findings of Jurek (1968).

There are very rare studies done that show the relationship between PC state and organizational performance. The current study factored the both hygiene and motivator needs of employees as the content of the PC in WSPs and showed that it has impact on performance. This was first stage and the results supported hypothesis H1 which allowed the testing the mediation (second hypothesis) in the relationship between PC state and organizational performance.

### **5.2.2 Psychological Contract State, Employee outcomes and Organizational Performance**

In this study it was posited that: the relationship between PC state and organizational performance is mediated by employee outcomes. The method used to test this hypothesis involved four steps consisting of three simple linear regression models and a multiple regression analysis and the result were as indicated in Table 4.15. In step 1 organizational performance was regressed on PC state and both the model and the influence results were positive ( $R^2=.238$ ,  $F=11.548$ ,  $p<.05$ ;  $B=0.472$ ,  $t=3.398$ ,  $p<.05$ ). Step 2 involved regression of employee outcomes (mediator) on PC state and both the model and

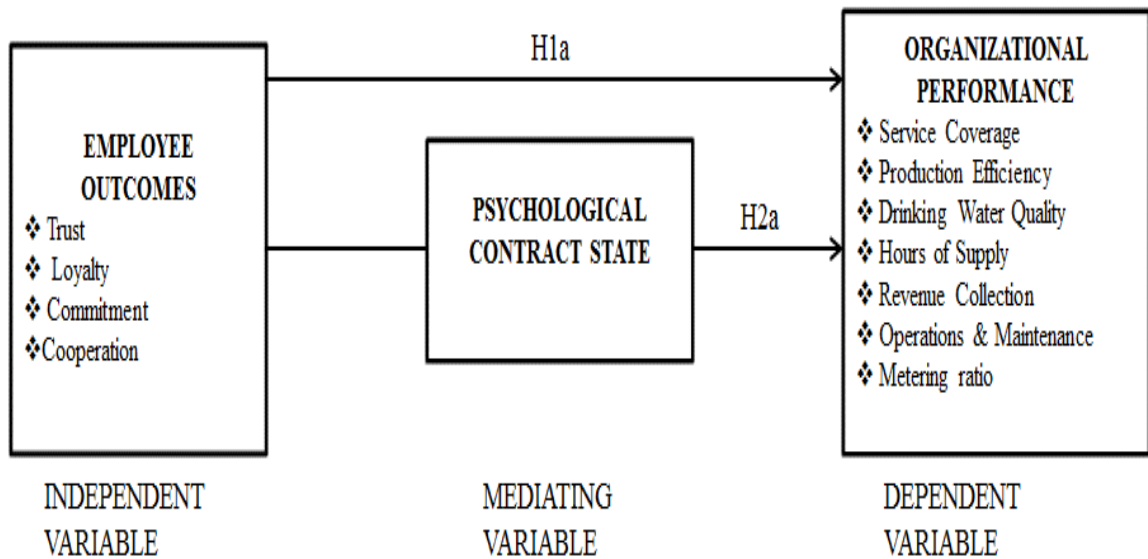
regression coefficient confirmed the relationship ( $R^2 = 0.313$ ,  $F = 13.201$ ,  $p < 0.05$ ;  $B = 0.532$ ,  $t = 3.633$ ,  $p < 0.05$ ). Step 3 required regression of organizational performance on employee outcomes and the results were significant ( $R^2 = .157$ ,  $F = 5.386$ ,  $p < .05$ ,  $B = .426$ ,  $t = 2.321$ ,  $p < .05$ ).

Lastly, in step 4 the organizational performance was regressed on PC state and employee outcomes together. In the presence of PC state, employee outcomes, the influence was insignificant ( $B = .101$ ,  $t = .514$ ,  $p > .05$ ) whereas the influence of the PC state on performance remained significant ( $B = .553$ ,  $t = 2.951$ ,  $p < .05$ ) in presence of employee outcomes contrary to expectation. If there is mediation this should have been insignificant. The results failed to fully confirm the relationship.

The result explained above notwithstanding, an observation was made on the behavior of employee outcomes in the presence of PC state. That is, in step 3 the regression coefficient for employee outcomes was significant ( $B = .426$ ,  $t = 2.321$ ,  $p < .05$ ), but when both employee outcomes and PC state were factored into multiple regression in step 4 the beta coefficient for the mediator diminished from  $B = .426$  to  $B = .101$ . The interpretation is that; a unit change in employee outcomes is associated with 43% of the organizational performance; but in the presence of PC state, a unit change in employee outcomes is associated with 10% of variation in organizational performance (33% decline). This implies that employee outcomes are largely explained by the PC state. Indeed, employee outcomes became insignificant when PC state was factored into the regression equation. Thus the results supported the postulation that PC state is probably the mediator in the relationship between employee outcomes and organizational performance. The results were also supported by the two significant positive changes in the explanatory power of the predictive model.

Hence, these findings led to reconceptualization whereby the employee outcomes were considered as independent variable and organizational performance as the dependent variable and the PC state being the mediator. The new conceptualization leads to the revised conceptual framework presented in Figure 5.1.

**Figure 5.1: The Revised Conceptual Model Depicting the Relationship between the Variables**



Source: Researcher

A post hoc analysis was done whereby; the main relationship was the link between employee outcomes and organizational performance. Based on this, it was hypothesized that there is a significant relationship between employee outcomes and organizational performance through psychological contract. This hypothesis was tested using path analysis as done with respect to hypothesis H2a. The results were confirmed.

The overall relationship between employee outcome and organizational performance was significant ( $R^2=.157$ ,  $F=5.386$ ,  $p<.05$ ) and the influence of employee outcome was significant ( $B=.426$ ,  $t=2.321$ ,  $p<.05$ ). The results of the regression analysis for relationship between employee outcomes and PC state were confirmed and the results were significant ( $R^2=.313$ ,  $F=13.201$ ,  $p<.05$  and influence  $B=.588$ ,  $t=3.633$ ,  $p<.05$ ). The relationship between PC state and organizational performance was supported and was significant ( $R^2=.351$ ,  $F=15.661$ ,  $p<.05$  and  $B=.607$ ,  $t=3.957$ ,  $p<.05$ ). When PC state and employee are factored at the same time in the regression equation, the impact of PC state on organization performance was significant ( $B=.553$ ,  $t=2.951$ ,  $p<.05$ ) while impact of employee outcomes on organizational performance was insignificant ( $B=.101$ ,  $t=.514$ ,  $p>.05$ ), but the overall model remained significant ( $R^2=.357$ ,  $F=7.764$ ,  $p<.05$ ). The findings confirmed that the PC state was the mediator in the relationship between employee outcomes and organizational performance.

This is a departure from past studies focusing on relationship between PC states and some dimensions of employee outcomes (Conway & Coyle-Shapiro, 2012). Whereas the empirical studies have established relationships between PC states and employee outcomes of trust, loyalty and commitment (Robinson & Rousseau, 1994; Turnley & Feldman, 1999; Shapiro & Kessler, 2000; Atkinson, 2007); there is no indication of their direction of influence. Different from these studies, the finding of the current study indicate that the employee outcomes in terms of attitudes and behavior is significantly determined by the extent to which the employer fulfills the employees' need undertaken to be satisfied.

On the other hand, Argyris (1960) did not propose how the variables of his study related to each other. The findings of the current study shows that organizational performance depends on the extent to which the employees exhibit trust, loyalty, commitment and cooperation as shaped by their PC state. Therefore, the post hoc analysis indicates there is a relationship between employee outcomes and organization performance through PC state ( $R^2=.357$ ,  $F=7.764$ ,  $p<.05$ ). Thus when the employees perceive that the promises by the employer have not been fulfilled, their attitudes and behavior will be negative and subsequently organizational performance will be below optimal.

### **5.2.3 Equity Sensitivity, Psychological Contract State and Organizational Outcome**

The third hypothesis was to determine the moderating influence of equity sensitivity in the relationship between PC state and organizational performance. The theoretical basis is that people have different dispositions about their input to the organization compared to the outcomes in terms of rewards they get thereof. The conceptual argument is that the condition may regulate attitudes and behaviors of people as a result of unfulfilled promises or otherwise.

The results of the moderation by equity sensitivity in the relationship between PC state and organizational performance were not confirmed. But the findings in Table 4.15 indicated that the overall model was significant ( $R^2=0.283$ ,  $F=3.687$ ,  $p<.05$ ) with the results showing very slight insignificant change ( $R^2$  change=.007,  $F$  change =.255,  $p$ -value for  $F$  change>.05). With regard to regression coefficients, interaction between equity sensitivity and PC state was insignificant ( $B=-.010$ ,  $t=-.505$ ,  $p>.05$ ). Therefore, the outcome did not support the moderation of equity sensitivity on the relationship between PC state and organizational performance.

Perhaps the culprit here was the instrument used to measure the equity sensitivity construct. The instrument used to measure equity sensitivity required the respondent to distribute the ten points between each pair of statements. However most of the respondents failed to distribute the points as directed, Therefore a more robust instrument need to be used for future studies in this area.

#### **5.2.4 Leadership Style, Psychological Contract State and Organizational Performance**

The fourth objective aimed at finding out the moderating effect of leadership style on the relationship between PC state and organizational performance. The theoretical basis for this objective was that; although PC state has effect on organizational performance the effect may depend on the leadership style adopted by managers when interacting with employees. The results in Table 4.16 indicate that the overall model was significant ( $R^2=.266$ ,  $F=3.377$ ,  $p<.05$ ).

The interaction term showed very small and insignificant change ( $R^2$  change =0.005,  $F$  change=.182,  $p$ -value for  $F$  change>.05). Further, regression coefficients showed that, the interaction between leadership style and PC state was insignificant ( $B=.007$ ,  $t=0.426$ ,  $p>.05$ ). The results thus did not support the moderation of leadership style on the relationship between PC state and organizational performance. Nevertheless, it is worth noting that in the presence of leadership style, the beta coefficients for PC state declines from  $B=.472$  ( $t=3.98$ ,  $p<.05$ ) in model 1 to  $B=.415$  ( $t=2.244$ ,  $p<.05$ ) in model 2 and remained the constant in presence of interaction term ( $t=2.216$ ,  $p<.05$ ) in model 3. But in the presence of PC state, beta coefficients for leadership style fluctuates from  $B=0.039$  ( $t=196$ ,  $p>.05$ ) to  $B=0.007$  ( $t=.034$ ,  $p>.05$ ). The results indicate that, leadership style has predictive role in the relationship between PC state and performance of WSPs in Kenya. The overall model is significant, and future research is required to shed more light on the actual role of leadership style and PC state on the organizational performance.

#### **5.2.5 Combined Effect of Psychological Contract State, Employee Outcomes, Equity Sensitivity and Leadership Style on Organizational Performance**

The fifth objective was set to establish whether the combined effect of PC state, employee outcomes, equity sensitivity and leadership style on organizational performance has a greater influence on performance than each of the predictor variables alone. This was accomplished by testing the hypothesis that the joint effect of PC state, employee

outcomes, equity sensitivity and leadership style is greater than their individual effects on organizational performance. There was no systematic study identified on the joint effect of PC state, employee outcomes, equity sensitivity and leadership style on organizational performance. The hypothesis was tested using multiple regression analysis.

The results indicated that the joint effect of PC state, employee outcomes, equity sensitivity and leadership style on organizational performance was significant ( $R^2=0.353$ ,  $F=2.321$ ,  $p<0.1$ ). However, other than PC state ( $B=.377$ ,  $t=1.900$ ,  $p<0.05$ ), the individual beta coefficients for employee outcomes, equity sensitivity and leadership style were insignificant. Hence the findings supported the hypothesis that the joint effect of PC state, employees' outcome, equity sensitivity and leadership style is greater than their individual effects on organizational performance

### **5.3 Conclusion**

This thesis is grounded on the resource based theory as the basis of sustainable competitive advantage, social exchange theory and speech act (communicative action) theory. Among the assumptions of resource based theory is the inimitability of the resources, on which firms leverage for competitive advantage. One of a firm's resources that enable sustainable competitive advantage through the use of tacit knowledge is human resource. However, the nature of HR is a management dilemma, because it is embroiled with social complexity (Prahalad, 1990) and causal ambiguity (Peteraf, 1993). To unravel the HR social complexity and causal ambiguity, social exchange theory offers an answer on how employees reciprocate upon fulfillment of expectations that arise from actual or implied promises by the organization. The promises are framed from performative speech acts (communicative actions) that arouse expectations of employees. The promises are either explicit/actual or implicit. They occur when the employer undertake to satisfy the needs/goals of the employees. Such acts have tendency to arouse expectations that the needs will be fulfilled. These expectations are predisposed as beliefs or feeling of being owed a promise (psychological contracts). The state of fulfillment of promises elicits attitudes and behavior (employee outcomes) as a way of reciprocation. These are specifically trust, loyalty, commitment and cooperation which eventually impacts on performance of the organization.

Human resource has to be viewed from the perspective of SET with particular consideration of communicative actions like promises which tends to arouse expectations of employees. This study found that the state of fulfillment of the employees' needs communicatively undertaken by employer to be satisfied (PC state) has influence on their attitudes and behaviors specifically trust, loyalty, commitment and cooperation (employee outcomes). These set of attitudes and behaviors eventually affect the overall performance of the organization. In this study, it was also conceptualized that the relationship among these variables (PC state, employee outcomes and performance) depends on equity sensitivity and leadership style. However the role of equity sensitivity and leadership style was not confirmed.

In the post hoc analysis, it was established that there is an indirect relationship between employee outcomes and organizational performance through PC state. Thus, it is deduced that how well an employer meets their side of bargain, in terms of promises made, affects employees' attitude-behavior (trust, loyalty, commitment and cooperation) and consequently the performance of the organization. This study also confirmed that the joint effect of PC state, employee outcomes, equity sensitivity and leadership style is greater than their individual effects on organizational performance ( $R^2=.353$ ,  $F=2.321$ ,  $p<.01$ ). The beta coefficient showed that PC State is greatest with ( $\beta =0.377$ ) followed by employee outcomes ( $\beta=0.27$ ). The study showed that the concepts of equity sensitivity and leadership style did not moderate the relationship between PC state and organizational performance. However, since the overall models remained significant (that is for equity sensitivity,  $R^2=.283$ ,  $F=3.687$ ,  $p<.001$  and leadership style,  $R^2=0.266$ ,  $F=3.377$ ,  $p<.05$ ) these variables may require reconceptualization and further analysis. In conclusion, the study confirmed the proposition made by Argyris (1960) but contrasted the findings of a study by Jurek (1967).

#### **5.4 Implications for Theory, Policy and Practice**

The main objective of this study was to determine the link between psychological contract and performance of public WSPs in Kenya and whether the relationship is mediated by employee behavior outcome and moderated by equity sensitivity and leadership style. In so doing, the study has contributed in the contemporary debate on whether the construct of psychological contract is a powerful explanatory variable in HRM. The evidence deduced from findings of post hoc analysis shows that the PC state is the mediator in the relationship between employee outcomes and performance of WSPs and not vice versa.

The findings supported Conway and Coyle-Shapiro (2012) observations that breach of PC causes employees to withhold that are behaviors beneficial to the organization. The results are a confirmation that in social exchange theory promissory interaction are mutually rewarding and overtime generate high quality relationship (Emerson, 1976), also known as internal relational architecture (IRA) (Kay, 1995), that lead to the attainment of organizational performance like in case of WSPs in Kenya.

#### **5.4.1 Theoretical Implication**

The RBT assume that firms can achieve competitive advantage through acquiring valuable, rare, none substitutable and inimitable resources (Barney, 1991). But this assumption is not in the long run sustainable, especially for public organizations seeking SCA and high performance within turbulent and dynamic business environment. The HR of a firm should be flexible in terms of attitudes and behavior so as to adjust to these business dynamics. The right characteristics for the attitude and behavioral flexibility constitute high morale and cooperative ethics (Kay, 1995; Matthews & Shulman, 2005). The method of acquiring these attributes on the basis of RBT, is by creating internal relational architecture (IRA) through development of cooperative ethics and high morale. In SET, the IRA is known as high quality relationship (Cropanzano & Mitchell, 2005) which constitutes of trust, loyalty and commitment which finally results to cooperative ethics. The process of building these attitudes and behavior is initiated by the employer since he possesses relational power/command and effect which is exercised by undertaking to fulfill needs of employees.

The theory of psychological contract is founded on the notion of making and keeping promises as the basis of increasing trust, loyalty and commitment (Cropanzano & Mitchell, 2005; Holtgraves, 2008). That is, the employer undertakes to satisfy the hygiene and motivational needs of the employees. This may be done through implied or expressed communicative actions. However when employee recognize that their needs have been adopted so as to be fulfilled by the employer, they psychologically act in reliance through the aroused expectations and anticipation. At end of latency time interval or anticipation (Huron, 2006) period, the employees access the status of their needs satisfaction. Then the employees form beliefs/feelings about the extent of the employer's fulfillment of their needs as promised; and this forms the construct of psychological contract state (Njenga, 2017a).



The net effect of the PC state has impact on employee outcomes (trust, loyalty, commitment and cooperation) and organizational performance. The post hoc thesis is that effect of employee outcomes (trust, loyalty, commitment and cooperation) on performance of organizations is contingent on PC state of employees. The post hoc analysis results confirmed that the relationship between employee outcomes and performance of WSPs is explained by PC state of employees. This means the RBT of IRA and SET on high quality relationship comprising of trust, loyalty, commitment and cooperation has impact on performance of WSPs through the mediation of PC state. Thus the RBT blended with SET supports the firm performance (Kay, 1995; Njenga, 2017ab). Therefore the theoretical basis of PC state and employee outcomes is RBT and SET.

#### **5.4.2 Policy and Managerial Implications**

The challenges in water sector in Kenya have been non-revenue water (NRW) which is lost before it reaches the customer. These losses can be physical losses through leaks or water lost through theft or metering inaccuracies. These challenges are detrimental to the financial viability of water utilities and quality of water itself. This challenge has persisted despite effort to address it through systemic changes. However this study has established that the employees attitudes/behavior (trust, loyalty, commitment and cooperation) has impact on performance of WSPs through the employee psychological contract state.

The overall mediation model in table 4.19 ( $R^2=.357$ ,  $F= 7.764$ ,  $p<.05$ ) indicate that 35.7% change in performance of WSPs is due variation in both employee outcomes and their PC state. A unit change in PC state, as a mediator of the relationship between PC state and performance causes 53.3% change in performance of WSPs. It is deduced that employee outcome arise due to how well the needs of the employees needs as promised have been met (PC state) and this has impact on performance of WSPs. Therefore WSPs need to have HRM policy on PC of employees since it has impact on NRW, O&M and by extension the quality of the water. The policy should determine the promissory communicative actions which adopt the employees' needs and the state of their fulfillment since it has a bearing on trust, loyalty, commitment and cooperation. This is because employee outcomes (attitudes/behavior) influence on firm's performance is explained by the PC state of its employees.

The descriptive statistics Table 4.9a shows that the employee needs adopted by the WSPs to be fulfilled are skewed toward hygiene factors. The policy and practices of WSPs should be such that they also adopt the motivators (Appendix 7-recognition, achievement, advancement, responsibility and growth). This includes ensuring; a formal policy that respects employee status, availing opportunity for career advancement, giving employees recognition for good work performance, taking interest in employee's personal life and offering equal opportunity to train. The descriptive data also indicate the WSPs do not promise their employees a job security and do not offer other fringe benefits above normal salary. By ignoring these needs it may be associated with high apparent NRW due to employees developing apathy toward water thefts and inaccurate metering. The HRM practices require to be reviewed to bridge this gap. Finally the study has implication on managers in that the top management need to keep catalogue of promises made to employees and tract the status of their fulfillment.

### **5.5 Key Contributions of the Thesis**

The contemporary debate challenging clarity and validity of the construct of PC so far has not been settled among the scholars (Guest, 1998ab; Rousseau, 1998). This study has contributed to this debate by theoretically developing an epistemic definition. The PC is defined as actual or implied undertakings by the employer to satisfy work related needs (or desires, interests and goals) of employees. It is operationalized as feelings or beliefs of employer and employee that certain needs etcetera have been promised to be fulfilled or satisfied; followed by the employee's beliefs about the extent to which they have been fulfilled (as the PC state) (Njenga, 2017ab).

The current debate has pointed out a knowledge gap on the relevant workplace PC content that could be applied in empirical studies (Guest, 1998a). This study has theoretically identified extrinsic and intrinsic needs as the foundation for PC contract at workplace. The Herzberg two factor appeal to different employees' predispositions in terms of equity sensitivity typologies (Weathington, & Reddock, 2011; Kickul & Lester, 2001). Thus besides being the foundation for studying job satisfaction and motivation theories (Stello, 1998; Smerek & Peterson, 2007); the Herzberg two factor theory forms a plausible contract content for the PC studies which can minimize bias measurements. The approach further allows us to explore how PC is skewed towards hygiene and motivators factors including its effect on attitudes/behavior of employees.

Whereas previous studies applying different definitions have focused on establishing PC states and how it relates to attitudes and behaviors (Robinson & Rousseau, 1994; Turnley & Feldman, 1999; McDonald & Makin, 2000; Atkinson, 2007; Conway & Coyle-Shapiro, 2012); the current study has added organizational performance as the dependent variable. Moreover the study has shown that the relationship between attitudes and behavior (trust, loyalty, commitment and cooperation) and organizational performance is moderated by employee's PC state. These findings are significant since they contribute to the clarity of the concept of PC by demonstrating how it relates to other concepts of interest (Suddaby, 2010). Thus PC state of the employees is the explanatory variable in the relationship between employee outcomes and performance of WSPs in Kenya.

### **5.6 Limitations of the Study**

The study had limitations in a number of ways. For example, most of the returned questionnaires were responded to by one individual from the organization. This may have introduced in the study the single source bias. The second limitation arose from fact that the target group (respondents) were at management level. This may have presented in the study the issue of social desirability bias and other self-presentational concerns which may have reduced the predictive power of the variables.

Furthermore, the measurement instrument for equity sensitivity, unlike the others, required allocation of 5 points among the three choices in any way the respondent wished including assigning zeros (0) to some choices, as long as one allocated a total of 5 points for each set of the three statements. However, most of the respondents did not follow these instructions but instead they allocated points evenly. The concept of employee outcomes taken at one point in time and correlated with past firm's performance, assumes that attitudes and behavior have been stable over the period. That is, the organizational performance at time one may not have been influenced by the employees' attitudes/behaviors at time two (Koys, 2011). The current study did not take into consideration these concerns. Moreover the number of the organizations that responded formed a small sample which limited the predictive power of whole study.

## **5.7 Recommendation for Future Research**

The number of respondents per organization should be more than one so as to minimize single source bias. Researchers should also capture perceptions across all levels of the organization in order to control social desirability bias and other self-presentational concerns mainly associated with managers seeking to preserve the firm's image or reputation by giving positive responses. The equity sensitivity measurement instrument proved to be problematic to the respondents. Hence, it can be structured to be consistent with other tools for measuring employee outcomes and leadership style. This will ensure that all the instruments are consistent and easy to respond to.

The problem of measuring attitudes/behaviors at one point in time and correlating it with past performance of a firm may be addressed by conducting longitudinal study instead of cross-sectional survey. Moreover, as is the case for cross-sectional study methodology the sample should be big enough so as to improve the predictive power of the study. Future studies should adopt conditional indirect effects. For example indirect impact of employee outcomes on organizational performance through PC state and as moderated by equity sensitivity (that is moderated mediation method). This is should be done using structural equation modeling analysis which also addresses the measurement error associated with moderated mediation testing. Besides equity sensitivity, studies also should factor in age or tenure in an organization as a moderator between employee outcomes and PC state (Bal, et al., ud). This is because PC state may depend on age or tenure of an employee.

However, despite these limitations, the study has significant contribution to the current debate about clarity and validity of PC construct. Thus the thesis is that, the effect of attitudes/behaviors (employee outcomes) on organizational performance is contingent on psychological contract state of employees. But the model requires more testing using a relatively bigger sample so that it can be increasingly confirmed.

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# APPENDICES

## APPENDIX 1: INTRODUCTION LETTER FROM UNIVERSITY OF NAIROBI



**UNIVERSITY OF NAIROBI**  
**COLLEGE OF HUMANITIES AND SOCIAL SCIENCES**  
**SCHOOL OF BUSINESS**  
**DOCTORAL STUDIES PROGRAMME**

Telephone: 4184160/1-5 Ext. 225  
Email: dsp@uonbi.ac.ke

P.O. Box 30197  
Nairobi, Kenya

27<sup>th</sup> June, 2014

**TO WHOM IT MAY CONCERN**

**RE: FRANCIS NDIRANGU NJENGA:D80/60330/2010**


This is to certify that, **FRANCIS NDIRANGU NJENGA:D80/60330/2010** is a Ph.D candidate in the School of Business, University of Nairobi. The title of his study is: **“Psychological Contract State, Employee Behavior Outcome, Equity Sensitivity, Leadership Style and Performance of Public Water Service Providers in Kenya”**.

The purpose of this letter therefore, is to kindly request you to assist and facilitate in carrying out the research/study in your organization. A questionnaire is herewith attached for your kind consideration and necessary action.

Data and information obtained through this exercise will be used for academic purposes only. Hence, the respondents are requested not to indicate their names anywhere on the questionnaire.

We look forward to your cooperation.

Thank you.

  
**PROF. MARTIN OGUTU**  
**FOR: ASSOCIATE DEAN**  
**GRADUATE BUSINESS STUDIES**  
**SCHOOL OF BUSINESS**

MO/nwk

## **APPENDIX 2: RESEARCHER'S INTRODUCTION LETTER**

UNIVERSITY OF NAIROBI

P.O. BOX 30197

NAIROBI.

Dear Respondent,

### **RE: RESEARCH DATA COLLECTION**

I am a PhD student at the University of Nairobi, School of Business. In order to fulfill one of the requirements for the award of the degree, I am undertaking an academic research on Psychological Contract State, Employee Outcomes, Equity Sensitivity, Leadership Style and Performance of Public Water Service Providers in Kenya

You have been selected to be part of this study. I would be grateful if you could spare some of your time to fill the attached questionnaire and answer the questions as honestly as possible. The information that you will give will be treated with utmost confidentiality and will be solely used for this academic research.

Your participation is highly appreciated.

Thank you.

Francis Ndirangu Njenga,

P.O. Box 4615-01001,

Thika, KENYA (E.A).

Telephone +254 722 337 269

**APPENDIX 3: LETTER OF INTRODUCTION FROM NATIONAL  
COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION**



**NATIONAL COMMISSION FOR SCIENCE,  
TECHNOLOGY AND INNOVATION**

Telephone: +254-20-2213471.  
2241349,3310571,2219420  
Fax: +254-20-318245,318249  
Email: dg@nacosti.go.ke  
Website: www.nacosti.go.ke  
When replying please quote

9<sup>th</sup> Floor, Utalii House  
Uhuru Highway  
P.O. Box 30623-00100  
NAIROBI-KENYA

Ref: No. **NACOSTI/P/17/77649/18472**

Date: **25<sup>th</sup> July, 2017**

Francis Ndirangu Njenga  
University of Nairobi  
P.O. Box 30197-00100  
**NAIROBI.**

**RE: RESEARCH AUTHORIZATION**

Following your application for authority to carry out research on *“Psychological contract state, employee outcomes, equity sensitivity, leadership style and performance of Public Water Service Providers in Kenya,”* I am pleased to inform you that you have been authorized to undertake research in **all Counties** for the period ending **24<sup>th</sup> July, 2018.**

You are advised to report to **the County Commissioners and the County Directors of Education, all Counties** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit a **copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.

**GODFREY P. KALERWA MSc., MBA, MKIM  
FOR: DIRECTOR-GENERAL/CEO**

Copy to:

The County Commissioners  
All Counties.

The County Directors of Education  
All Counties.

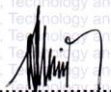



## APPENDIX 4: RESEARCH PERMIT

**THIS IS TO CERTIFY THAT:** **Permit No : NACOSTI/P/17/77649/18472**  
**MR. FRANCIS NDIRANGU NJENGA** **Date Of Issue : 26th July, 2017**  
**of UNIVERSITY OF NAIROBI, 30197-100** **Fee Received :Ksh 2000**  
**nairobi,has been permitted to conduct**  
**research in All Counties**

**on the topic: PSYCHOLOGICAL**  
**CONTRACT STATE, EMPLOYEE**  
**OUTCOMES, EQUITY SENSITIVITY,**  
**LEADERSHIP STYLE AND PERFORMANCE**  
**OF PUBLIC WATER SERVICE PROVIDERS**  
**IN KENYA**


**for the period ending:**  
**24th July,2018**


  
**Applicant's**  
**Signature**

  
**Director General**  
**National Commission for Science,**  
**Technology & Innovation**

**CONDITIONS**

1. The License is valid for the proposed research, research site specified period.
2. Both the Licence and any rights thereunder are non-transferable.
3. Upon request of the Commission, the Licensee shall submit a progress report.
4. The Licensee shall report to the County Director of Education and County Governor in the area of research before commencement of the research.
5. Excavation, filming and collection of specimens are subject to further permissions from relevant Government agencies.
6. This Licence does not give authority to transfer research materials.
7. The Licensee shall submit two (2) hard copies and upload a soft copy of their final report.
8. The Commission reserves the right to modify the conditions of this Licence including its cancellation without prior notice.

  
**REPUBLIC OF KENYA**

  
**National Commission for Science,**  
**Technology and Innovation**

**RESEARCH CLEARANCE**  
**PERMIT**

**Serial No.A 15134**  
**CONDITIONS: see back page**



## **APPENDIX 5: QUESTIONNAIRE GUIDE**

### **PART ONE**

#### **INTRODUCTION**

1. Please answer all the questions in order
2. Most questions can be completed by filling in one of the answer spaces. If you do not find the exact answer that fits your case use the one that is closest to it.
3. For most of these questions you will have five possible answers to choose from to indicate your thinking about each question
4. Remember the accuracy of your description depends on how straight forward you are in answering this questionnaire. Your response will be confidential.
5. Definitions
  - a) Your organization, it means Water Service Provider (or Water & Sewerage Company)
  - b) Your supervisor, it means the person to whom you report directly
  - c) Your work group or co-workers, it means all those persons who report to the same supervisor that you do

Now that you have completed the instructions, please begin with PART ONE, questions next page:

## PART TWO

### DEMOGRAPHY OF THE RESPONDENT

1. What is your gender?

Male  Female

2. What is your age?

Below  30 -39  40-49  Over 50   
30 years years years years

3. How long have you been working with this organization

1 to 4  5 to 9  over   
years years 15 years

4. What is your highest academic qualification?

Secondary  College  University

5. Which of the following position do you hold in the department?

Head of  Section   
department Head

**PART THREE**

**SECTION 1: PSYCHOLOGICAL CONTRACT STATE**

**a) Promissory Expectations of Employee about their Needs**

To what extent did your employer make the following promises? Please answer each question using the following scale:

1 not at all    2 slightly    3 moderately    4 to a great extent    5 to a very great extent

<b>My employer promised to:</b>		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	take interest in employee's personal life					
2	ensuring good working environment					
3	ensuring a regular, adequate and timely salary					
4	ensuring employees interaction among themselves					
5	giving other fringe benefits above normal salary					
6	ensuring job security					
7	ensuring formal policy that respects my status					
8	giving me challenging work					
9	ensuring am given recognition for good work performance					
10	availing opportunity for career advancement					
11	giving facilities/tools for performing the job					
12	offering equal opportunity to train					

**b) Promissory Expectations Fulfillment of the employee needs**

To what extent did your employer fulfill the following promises? Please answer each question using the following scale:

1 very dissatisfied    2 dissatisfied    3 neither satisfied nor dissatisfied    4 satisfied  
5 very satisfied

<b>My employer has fulfilled the promise to:</b>		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	take interest in employee's personal life					
2	ensuring good working environment					
3	ensuring a regular, adequate and timely salary					
4	ensuring employees interaction among themselves					
5	giving other fringe benefits above normal salary					
6	ensuring job security					
7	ensuring formal policy that respects my status					
8	giving me challenging work					
9	ensuring am given recognition for good work performance					
10	availing opportunity for career advancement					
11	giving facilities/tools for performing the job					
12	offering equal opportunity to train					

## SECTION 2: EMPLOYEE OUTCOMES

### a) Trust

The statements below refer to extend to which you trust your organization. Please answer each question using the following scale:

1 strongly disagree    2 somewhat disagree    3 neither agree nor disagree    4 somewhat agree    5 strongly agree

		strongly disagree	somewhat disagree	neither agree nor disagree	somewhat agree	strongly agree
		1	2	3	4	5
1	My organization keeps my interests in mind when making decisions					
2	I would be willing to let my organization have complete control over my future in this company					
3	If my organization asked why a problem occurred, I would speak freely even if I were partly to blame					
4	I feel comfortable being creative because my organization understands that sometimes creative solutions do work					
5	It is important for me to have a good way to keep an eye on my organization					
6	Increasing my vulnerability to criticism by my organization would be a mistake					
7	If I had my way, I wouldn't let my organization have any influence over decisions that are important to me					

Source: Modified trust items from Schoorman & Ballinger (2006)

**b) Employee Loyalty**

The statements below refer to extend of your loyalty to current employer. Please answer each question using the following scale:

**1** not at all    **2** slightly    **3** moderately    **4** to a great extent    **5** to a very great extent

To what extent would you do the following?

		not at all	slightly	moderately	to a great extent	to a very great extent
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	Make the interests or wellbeing of organization to be of great concern to me personally					
2	I feel pride in my employer					
3	I would take risk on behalf of my employer					
4	I would bear burdens for my employer					
5	Recommend my employer to prospective employees as a good place to work?					
6	Would I enthusiastically recommend our services to potential or existing customers?					
7	I take pride in my work and give it my best effort					
8	Would I follow established processes to work efficiently and effectively					
9	I look for ways to increase service quality and organizational efficiency					

c) **Normative Commitment** The statements below refer to extend to which you feel committed to your organization. Please answer each question using the following scale:

**1** not at all    **2** slightly    **3** moderately    **4**to a great extent    **5** to a very great extent

		not at all	slightly	moderately	to a great extent	to a great extent
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	I do feel an obligation to remain with my organization					
2	Even if it were to my advantage, I do feel it would be wrong to leave my organization now					
3	I would feel guilty if I left my organization now					
4	My organization deserves my loyalty					
5	I would not leave my organization now, because I have a sense of obligation to it					
6	I owe a great deal to my organization					

Source; Adopted from, Allen, & Meyer (1990) - Cronbach's alpha of the scale was 0.83

**d) Employee Cooperation**

Please answer the following questions using this scale:

**1** not at all    **2** slightly    **3** moderately    **4** to a great extent    **5** to a very great extent

To what extent do you believe the following:		Not at all	Slightly	Moderately	To a great extent	To a very great extent
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	Would other HODs (co-workers) support your goals of the department (shared goals)					
2	Do other HODs know about the work you do (shared knowledge)					
3	Do people other HODs respect the work you do with (mutual respect)					
4	Do you frequently and accurately communicate within yourselves as HODs (timely accurate communication)					
5	When a problem occurs in your area of work do the other HODs help you to solve the problem? (problem solving)					

Source: Modified from relational coordination approach by Gittell (2011)

**SECTION 3: MODERATION OF THE RELATION BETWEEN PC STATE,  
EMPLOYEE OUTCOMES AND ORGANIZATIONAL  
PERFORMANCE**

a) **Equity Sensitivity** - Using Triadic Measure of Equity Sensitivity (TMES) method. The statements below refer to what you would like your relationship to be with your employer.

For each statement below, allocate 5 points among the three choices (A, B, and C). You may assign the 5 points any way you wish including assigning zeros (0) to some choices, as long as you allocate a total of 5 points for each set of three statements.

In my present organization that I work for:

1. I would be most concerned about:

		0	1	2	3	4	5
A	What I received from the organization being equal to what I contributed to the organization						
B	What I contributed to the organization						
C	What I received from the organization						

2. It would be most important for me to:

		0	1	2	3	4	5
A	Help others						
B	Help others while taking care of my own needs						
C	Watch out for my own good						

3. The hard work I would do should:

		0	1	2	3	4	5
A	Benefit the organization more than me						
B	Benefit me and the organization equally						
C	Benefit me more than the organization						

4. My personal philosophy in dealing with the organization has been:

		0	1	2	3	4	5
A	If I don't take care of my own interest, nobody else will						
B	It's better for me to give than to receive						
C	I should work hard to get more benefits						

Source: Adopted Clark, et al. (2010)



**b) Leadership Style**

The statements below refer to extent a particular leadership behavior is used in your organization. Please answer each question using the following scale:

**1** not at all    **2** slightly    **3** moderately    **4** to a great extent    **5** to a very great extent

To what extent does your organization leadership show the following?

		not at all	slightly	moderately	to a great extent	to a very great extent
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	Conservative					
2	Participatory, caring					
3	Removed, elitist					
4	Listening, coaching and teaching					
5	efficient and effective					
6	Instituting confidence					
7	Motivating by fear					
8	Leading by means of personally demonstrated values					
9	Institutionalized policies					

Source: Adopted from Heskett, et al.(1994)

**SECTION 4: Organizational Performance**

The secondary data on organizational Performance of WSPs was obtained from a Performance Review of Kenya Water Service Sector, (WASREB, 2014).

## APPENDIX 6: POPULATION OF THE STUDY

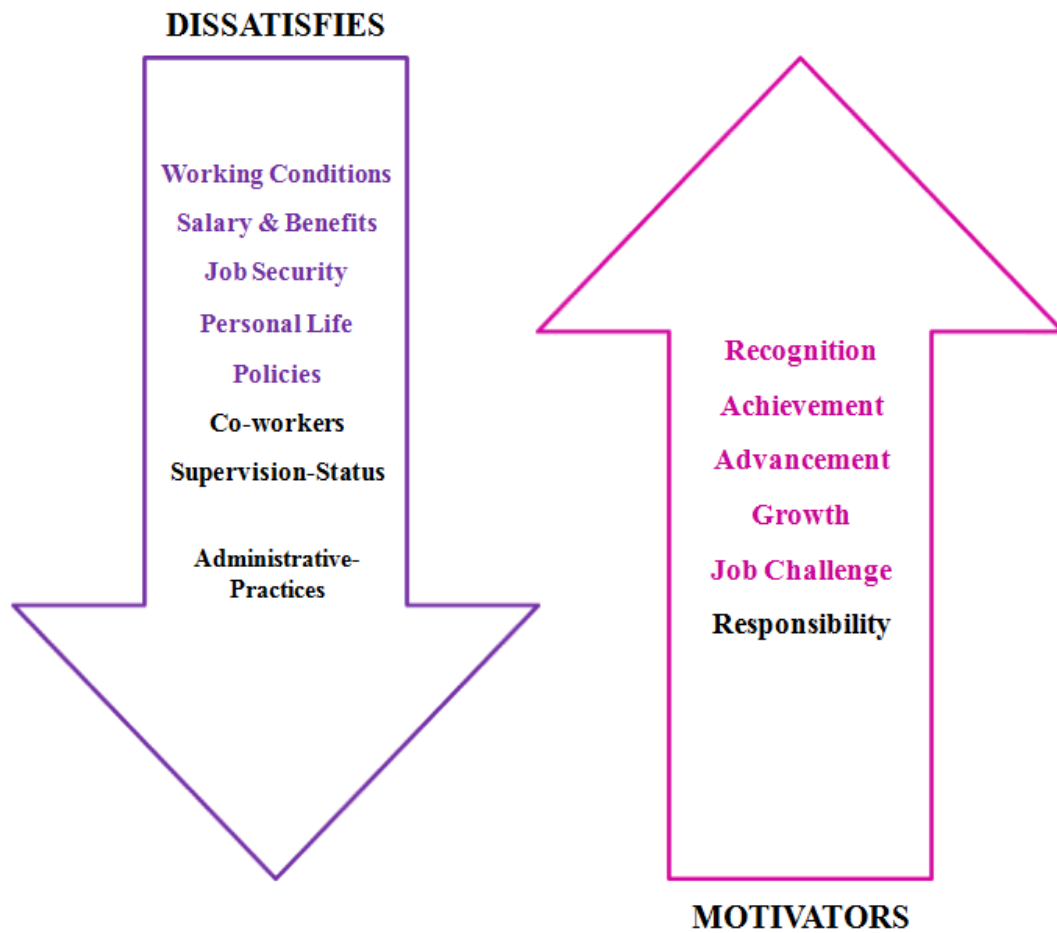
### Water Service Providers

Very Large WSPs		Medium		(small continued)	
1	Nairobi City*	1	South Nyanza	25	Olkalou
2	Mombasa*	2	Muranga Water*	26	Loitoktok
3	Eldoret*	3	TaitaTavete (Tavevo*	27	Rumuruti
4	Nakuru*	4	Meru	28	Kiamumbi
5	Thika*	5	Sibo*	29	OthayaMukurweini
<b>Large WSPs</b>		6	Oololaiser*	30	Kahuti
1	Nakuru Rural	7	Machakos	31	Gatundu South
2	Nzoia Water*	8	Kikuyu*	32	TetuAberdare
3	KakamegaBusia*	9	Isiolo*	33	Muranga South*
4	Nyeri*	10	RuiruJuja	34	Gichugu
5	Kirinyaga*	11	Mavoko*	35	Imetha
6	Mathira*	12	Limuru*	36	Karimenu*
7	Kisumu	13	Kitui	37	Gatamathi
8	Kirifi	14	Amatsi*	38	Githunguri*
9	Embu*	15	Kiambu*	39	NgandoriNginda
10	Kericho*	<b>Small</b>		40	Ngagaka
11	Chemosit	1	Mikutra	41	Tuuru
12	Gusii	2	Eldama Ravine	42	Nithi
13	Nanyuki*	3	Lodwar	43	Kyeni
14	Malindi	4	Lamu*	44	Gatanga Community*
15	Kwale	5	Karuri	45	Nyandarua
16	Nyahururu	6	No!Turesh	46	MurugiMugumango
17	Garrisa	7	Olkejuado*	47	Embe
<p>* The WSPs that responded and returned the questionnaire</p> <p>a) Very large = 5</p> <p>b) Large = 8</p> <p>c) Medium = 10</p> <p>d) Small = 8</p>		8	KiambereMwingi	48	Mwala
		9	Kapenguria	49	Muthambi 4K
		10	Kibwezi	50	Ndaragwa
		11	Nyanas	51	Nyakanja
		12	Gulf	52	Kikanamku
		13	Runda	53	Engineer Town
		14	Maralal	54	Nyasare
		15	Makindu	55	Tachasis
		16	Madera	56	Mawingo
		17	Moyale	57	Kinja
		18	Narok	58	MatunguruKangundo*
		19	Yatta	59	Tia Wira
		20	Kapsabet-Nandi*	60	Upper Chania
		21	ItenTambach	61	RuiruThau
		22	Naivasha	62	KathitaKiirua
		23	Wote	63	Gitie
		24	Namanga		

Source: WASREB (21014)

## APPENDIX 7: PROMISSORY COMMUNICATIVE ACTIONS FRAME

Herzberg's Hygiene and Motivational Factors

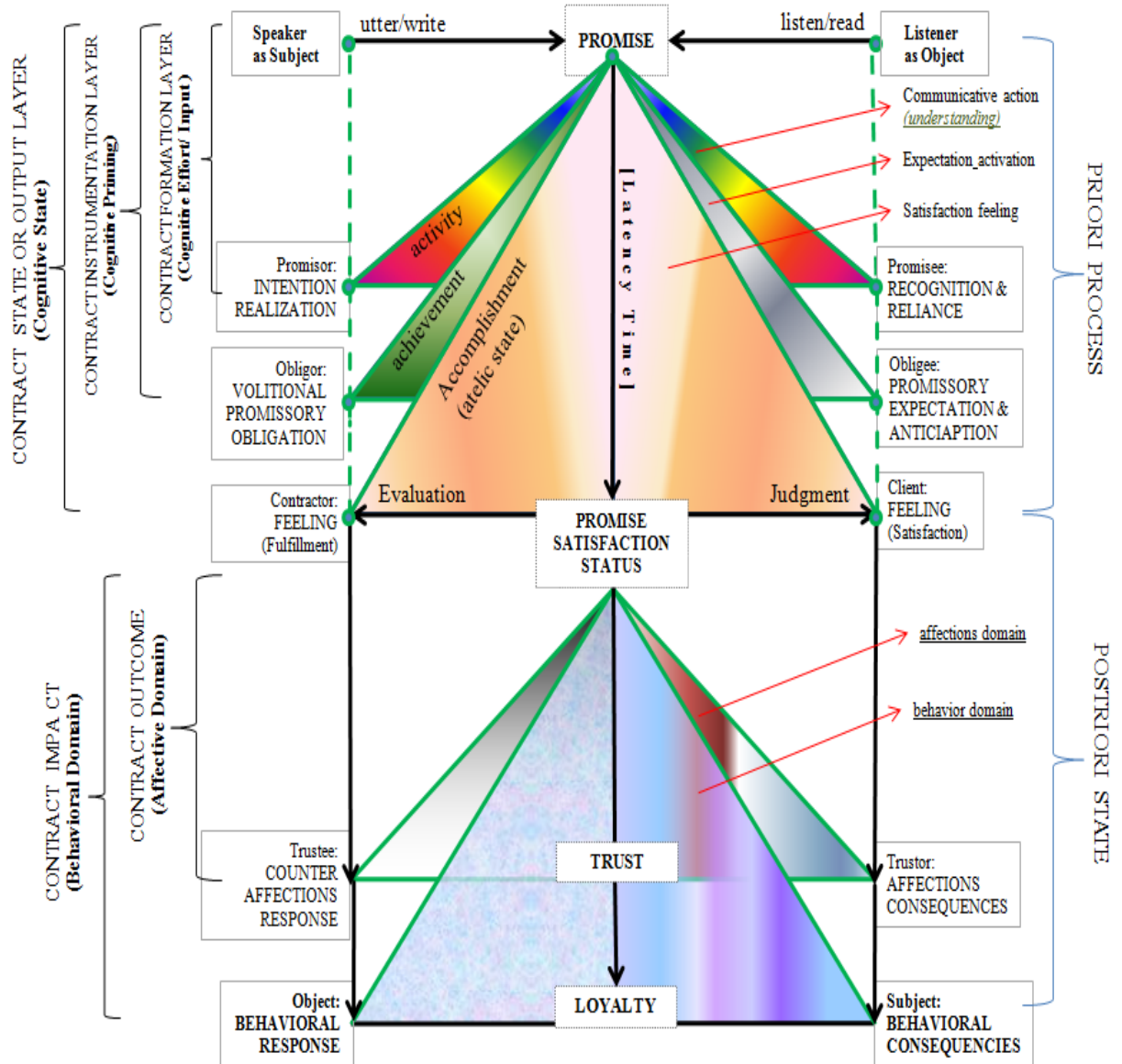


Summary extract of dissatisfies and motivators

Motivators and hygiene employee desires that are adopted through implicitly/explicitly communicative actions (promises) to be satisfied by employer

## APPENDIX 8: HOLISTIC PSYCHOLOGICAL CONTRACT PROCESS MODEL

### The Paradigm of Psychological Contract Process

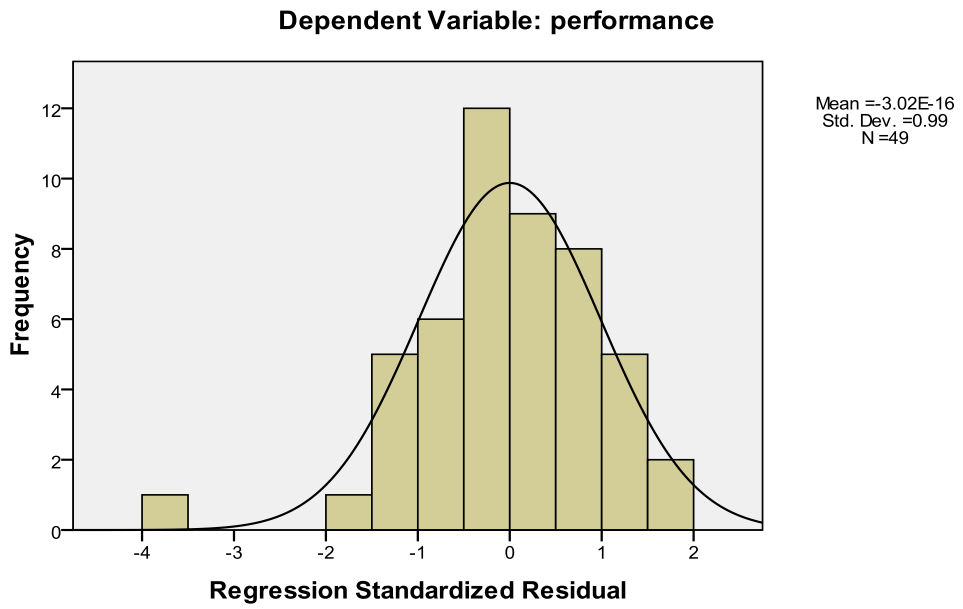


Source: Njenga, (2011). Psychological Contracting Process Model: Towards a Unifying Theory of Psychological Contract, *Unpublished PhD. Independent Study Paper in Business Administration*, University of Nairobi.

The Figure represents PC formation process in a panorama cognitive space. That is underlying layer as promissory communicative action (cognitive effort), central layer as expectation activation (cognitive priming) and surface layer as satisfaction feelings (cognitive state). Then posteriori domain comprises expectation contingency exhibited as affections and behavior, based on principle of reciprocity in trust and loyalty.

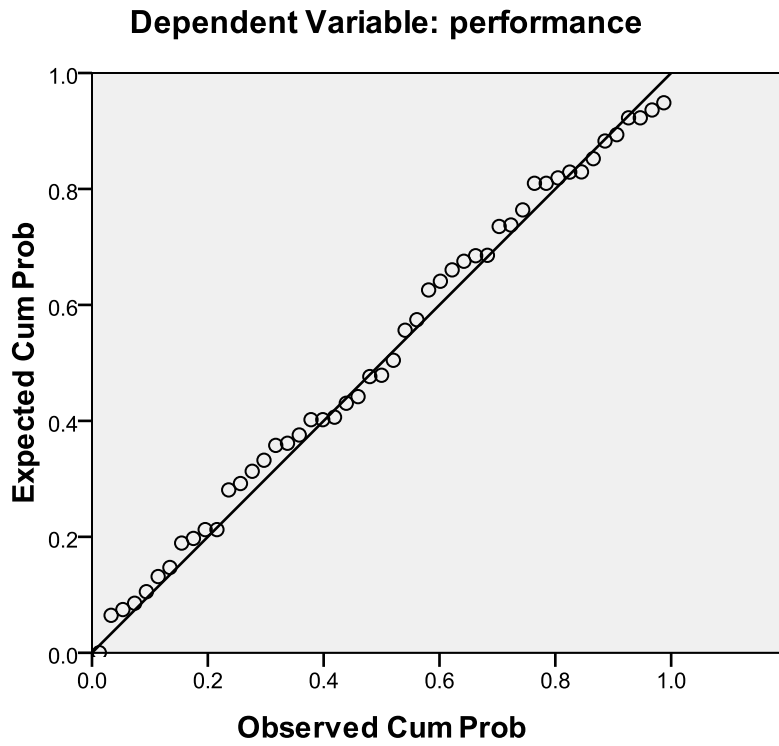
# APPENDIX 9A: HISTOGRAM OF ORGANIZATION PERFORMANCE AND PSYCHOLOGICAL CONTRACT STATE

## Histogram



**APPENDIX 9B: P-P PLOT ORGANIZATION PERFORMANCE AND  
PSYCHOLOGICAL CONTRACT STATE**

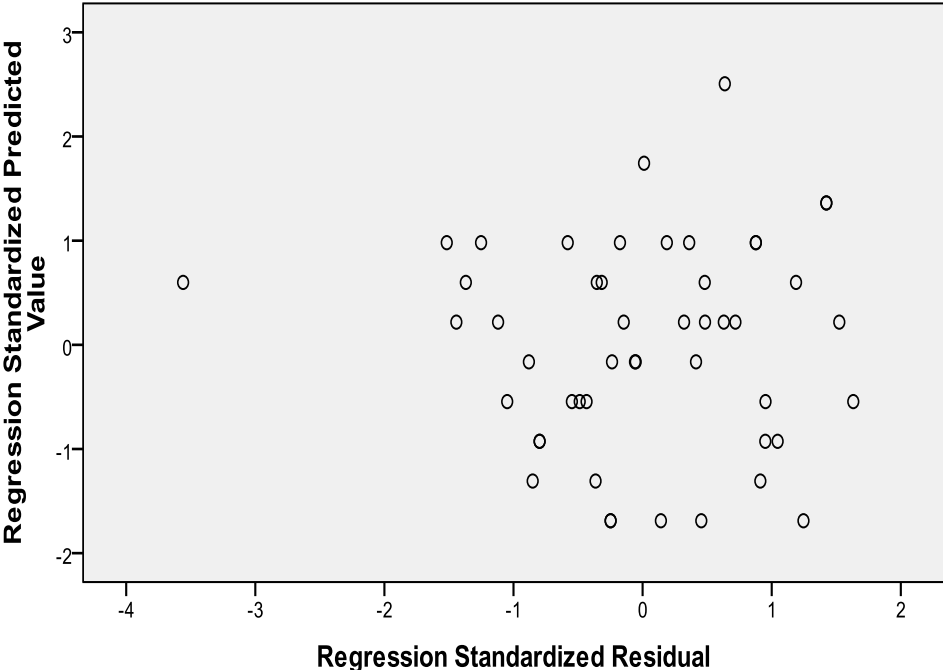
**Normal P-P Plot of Regression Standardized  
Residual**



**APPENDIX 9C: SCATTER-PLOT ORGANIZATION PERFORMANCE AND PSYCHOLOGICAL CONTRACT STATE HISTOGRAM**

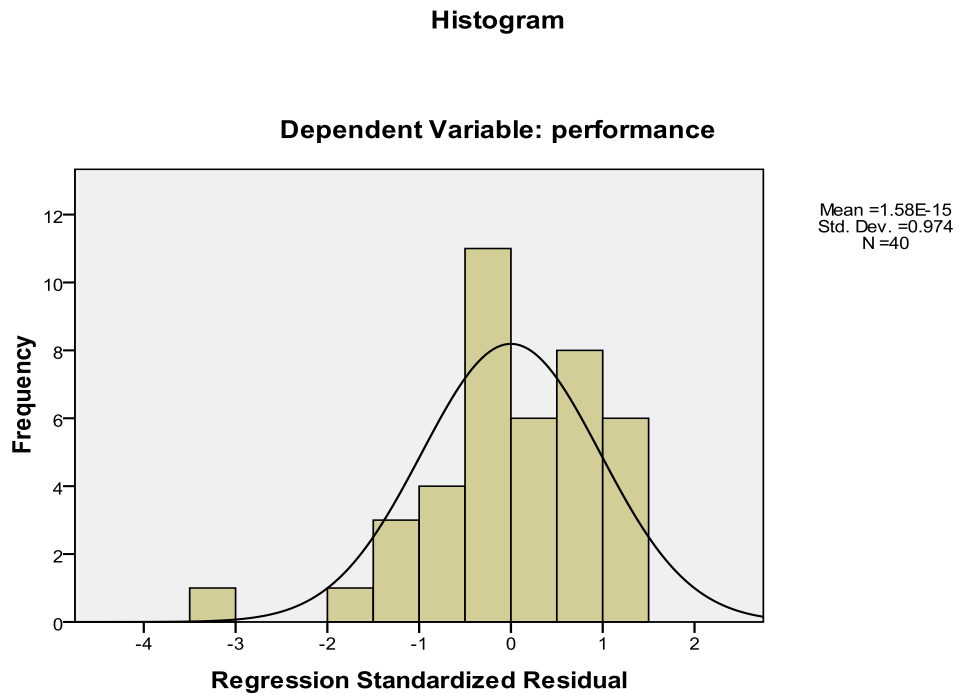
**Scatterplot**

**Dependent Variable: performance**



**APPENDIX 10A: EFFECT OF EMPLOYEE OUTCOMES ON THE  
RELATIONSHIP BETWEEN ORGANIZATION  
PERFORMANCE AND PSYCHOLOGICAL CONTRACT STATE**

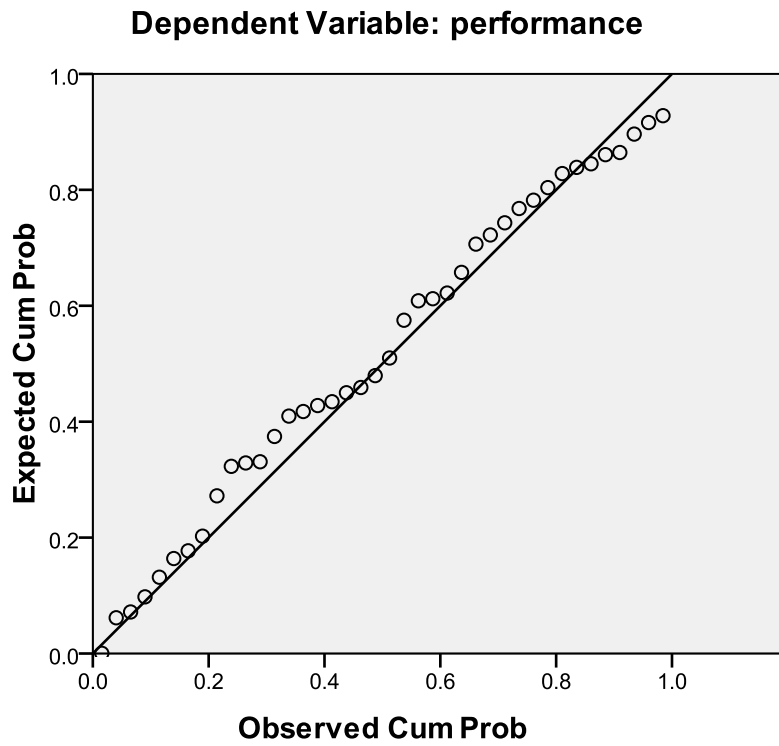
Histogram of mediating effect of employee outcomes on the relationship between organization performance and psychological contract state





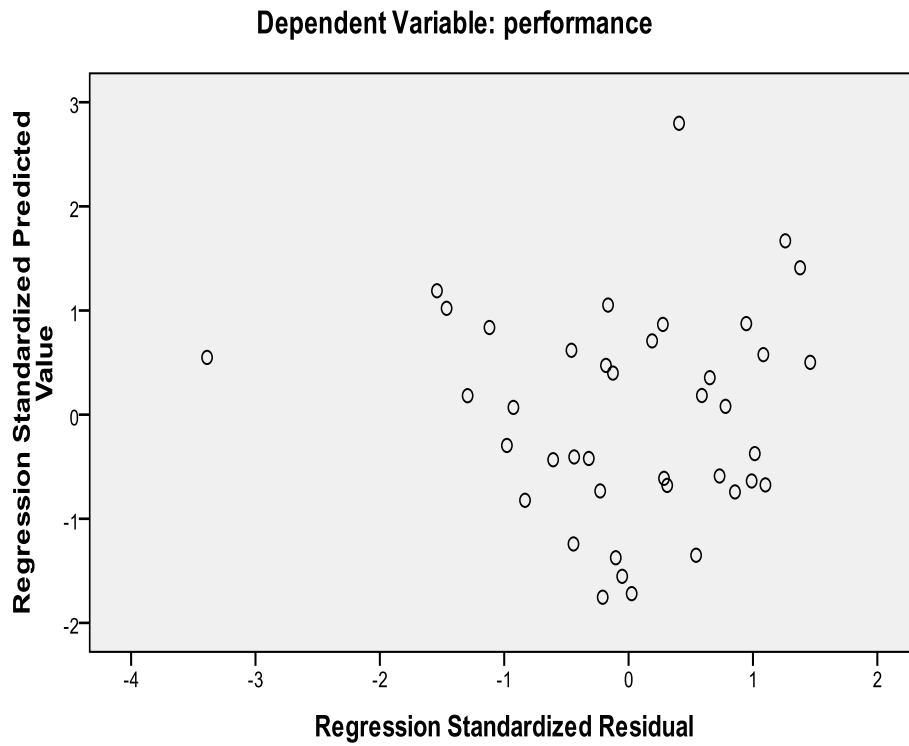
**APPENDIX 10B: P-P PLOT OF MEDIATING EFFECT OF THE EMPLOYEE  
OUTCOMES ON THE RELATIONSHIP BETWEEN  
ORGANIZATION PERFORMANCE AND PSYCHOLOGICAL  
CONTRACT STATE**

**Normal P-P Plot of Regression Standardized  
Residual**



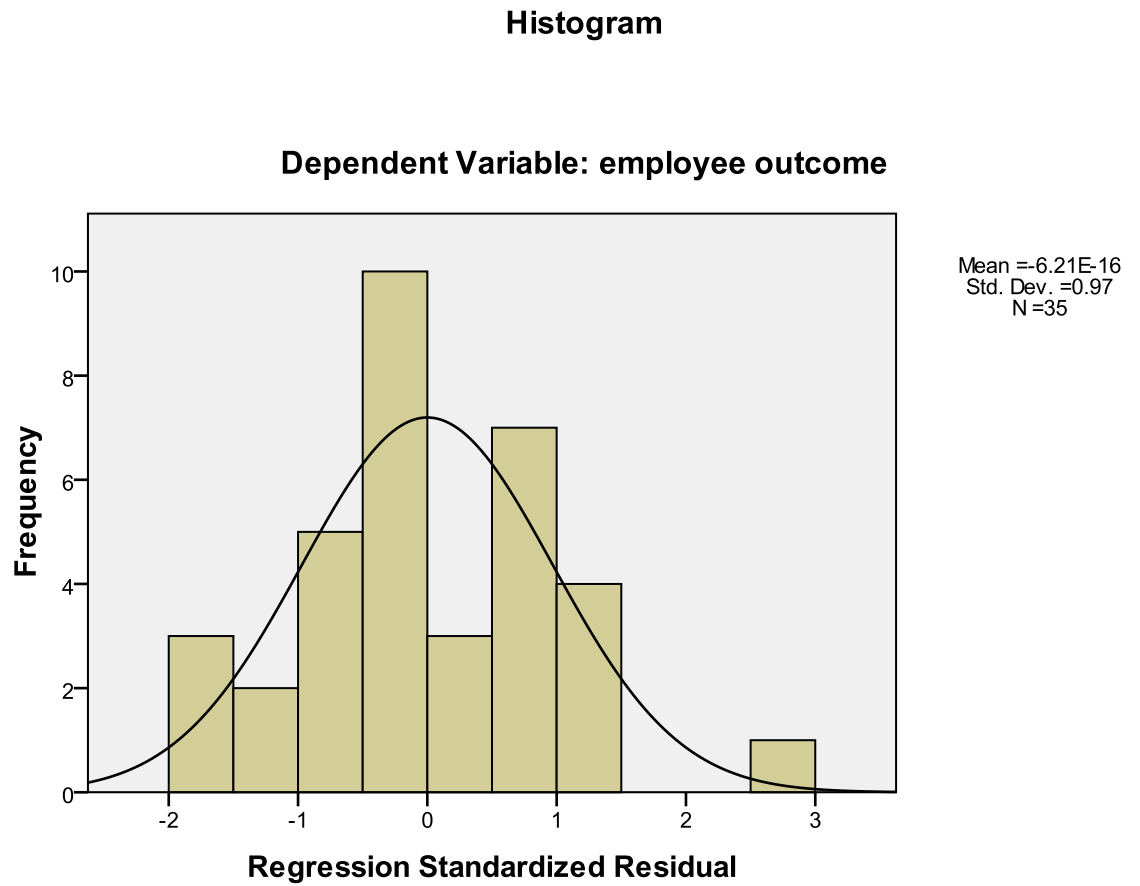
**APPENDIX 10C: SCATTER-PLOT OF MEDIATING EFFECT OF THE  
EMPLOYEE OUTCOMES ON THE RELATIONSHIP  
BETWEEN ORGANIZATION PERFORMANCE AND  
PSYCHOLOGICAL CONTRACT STATE**

**Scatterplot**



**APPENDIX 11A: EFFECT OF EQUITY SENSITIVITY ON THE  
RELATIONSHIP BETWEEN THE EMPLOYEE OUTCOME AND  
PSYCHOLOGICAL CONTRACT STATE**

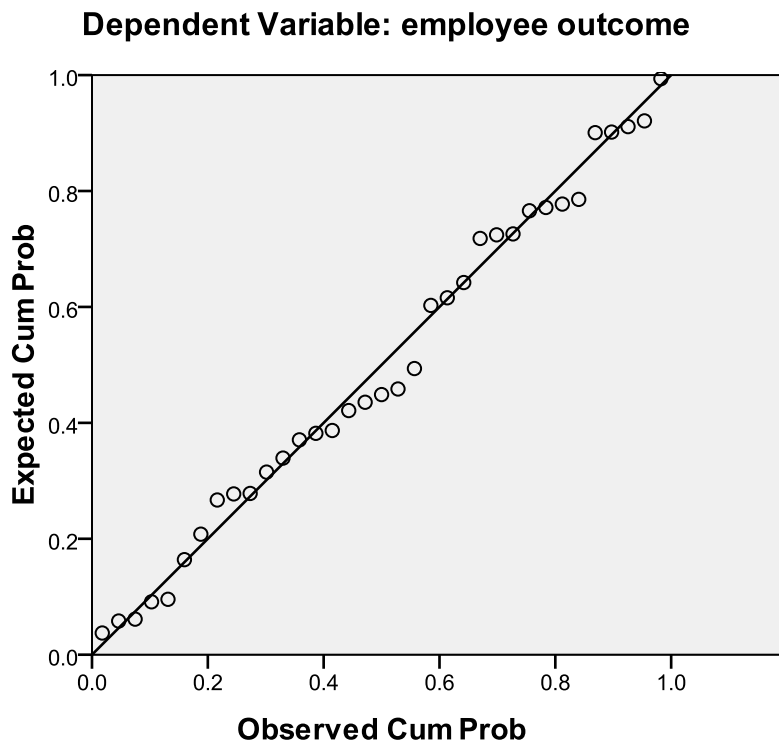
Histogram for moderating effect of equity sensitivity on the relationship between employee outcomes and psychological contract state



**APPENDIX 11B: EFFECT OF EQUITY SENSITIVITY ON THE  
RELATIONSHIP BETWEEN THE EMPLOYEE OUTCOMES  
AND PSYCHOLOGICAL CONTRACT STATE**

P-P plot of moderating effect of equity sensitivity on the relationship between employee outcomes and psychological contract state

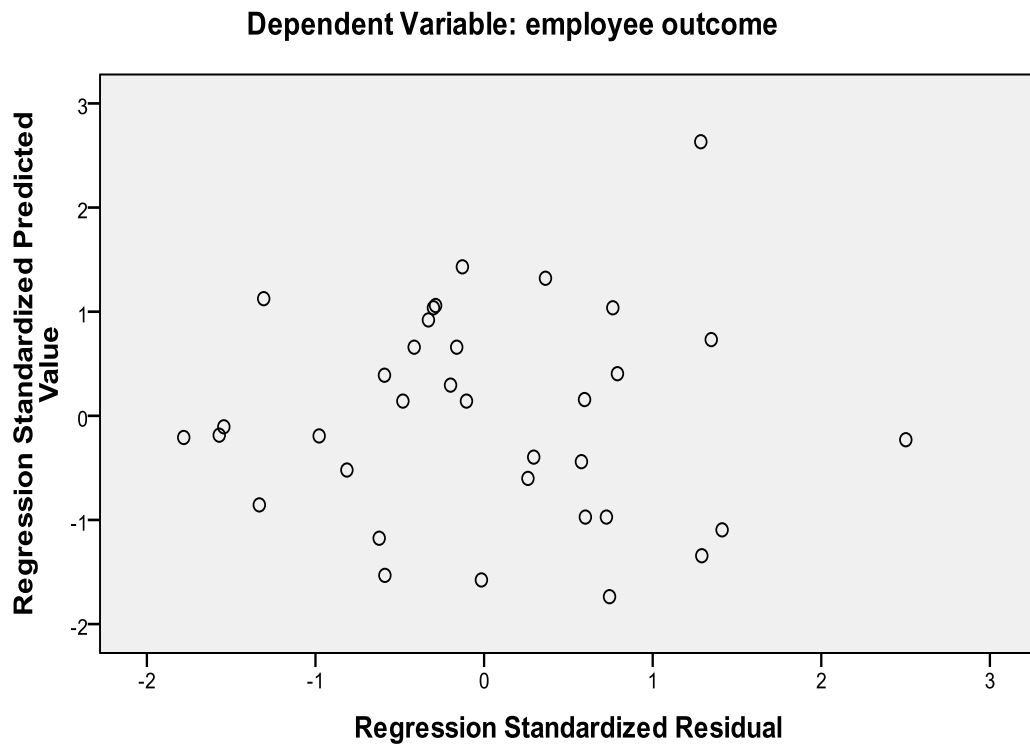
**Normal P-P Plot of Regression Standardized Residual**



**APPENDIX 11C: EFFECT OF EQUITY SENSITIVITY ON THE  
RELATIONSHIP BETWEEN EMPLOYEE OUTCOME AND  
PSYCHOLOGICAL CONTRACT STATE**

Scatter-plot of moderating effect of equity sensitivity on the relationship between employee outcomes and psych

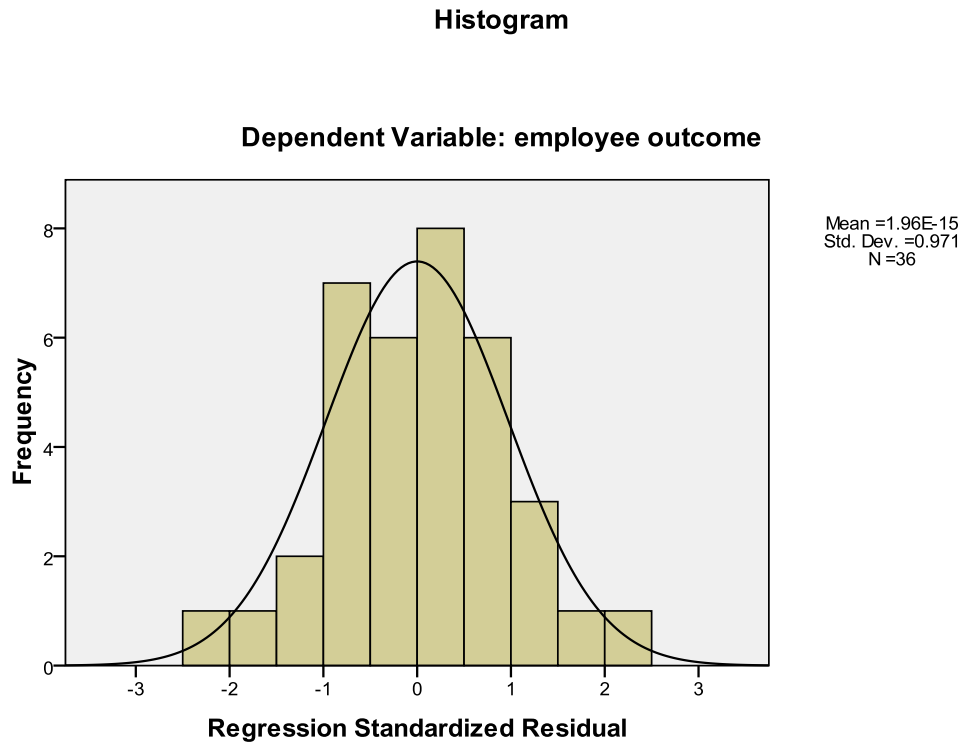
**Scatterplot**



ological contract state

**APPENDIX 12A: EFFECT OF LEADERSHIP STYLE ON THE RELATIONSHIP  
BETWEEN EMPLOYEE OUTCOME AND  
PSYCHOLOGICAL CONTRACT STATE**

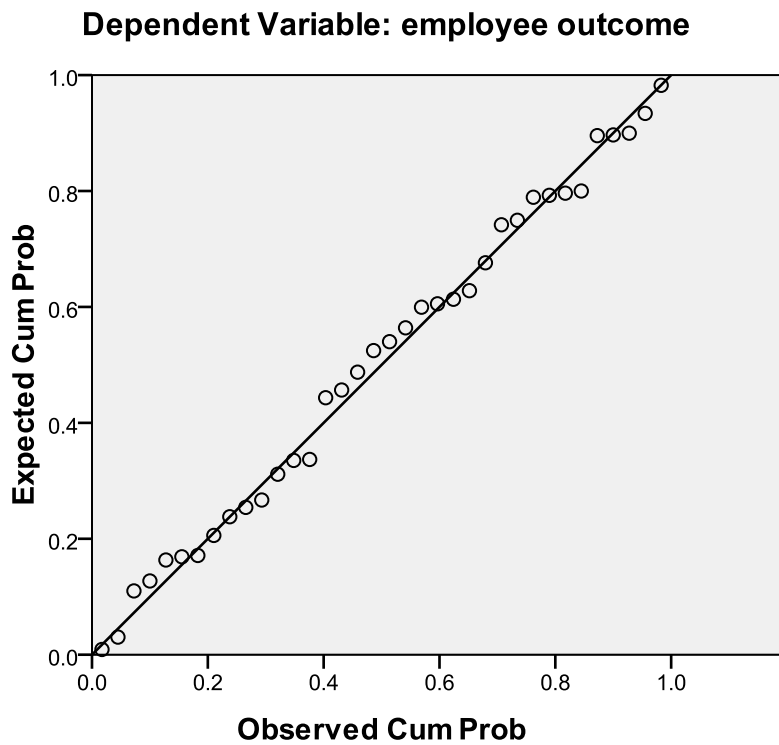
Histogram for moderating effect of leadership style on the relationship between employee outcomes and psychological contract state



**APPENDIX 12B: EFFECT OF LEADERSHIP STYLE ON THE RELATIONSHIP  
BETWEEN EMPLOYEE OUTCOME AND  
PSYCHOLOGICAL CONTRACT STATE**

P-P plot of moderating effect of leadership style on the relationship between employee outcomes and psychological contract state

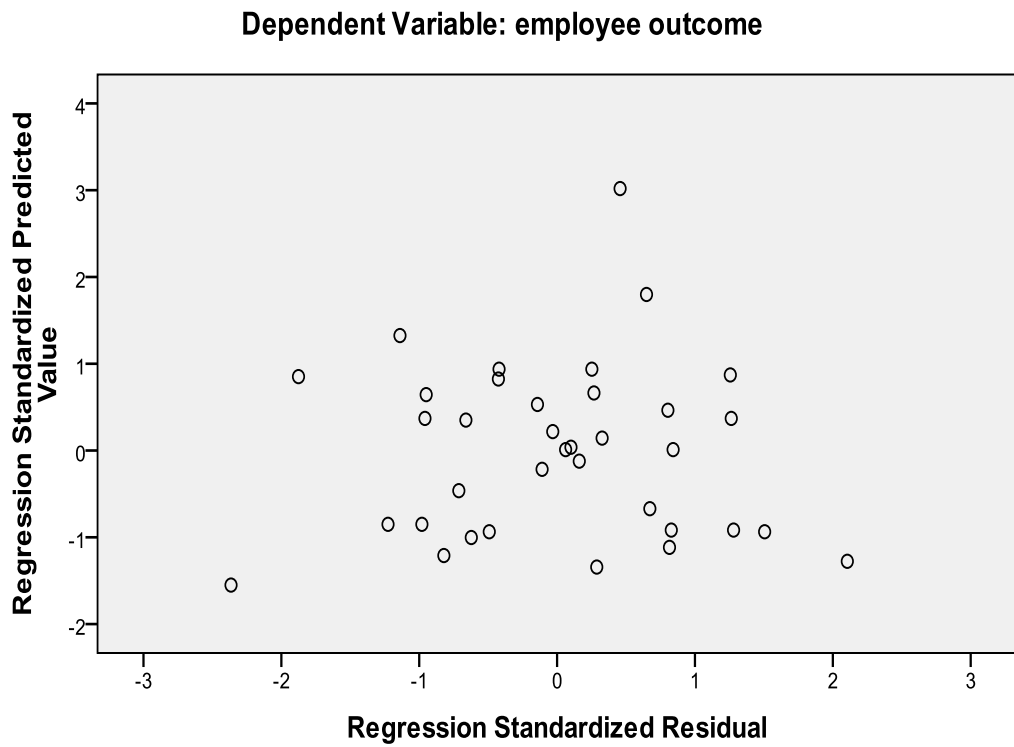
**Normal P-P Plot of Regression Standardized Residual**



**APPENDIX 12C: EFFECT OF LEADERSHIP STYLE ON THE RELATIONSHIP  
BETWEEN EMPLOYEE OUTCOME AND  
PSYCHOLOGICAL CONTRACT STATE**

Scatter-plot of moderating effect of leadership style on the relationship between employee outcomes and psychological contract state

**Scatterplot**

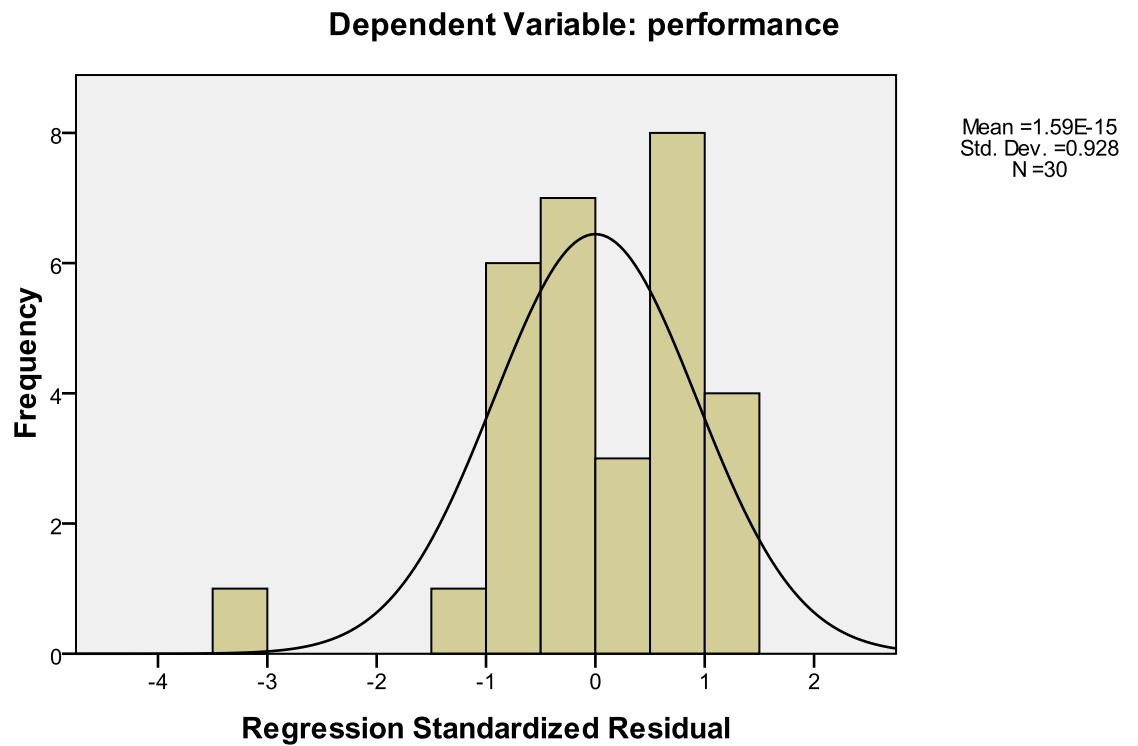




**APPENDIX 13A: EFFECT OF PSYCHOLOGICAL CONTRACT STATE,  
EMPLOYEE OUTCOMES, EQUITY SENSITIVITY AND  
LEADERSHIP STYLE ON ORGANIZATIONAL  
PERFORMANCE**

Histogram of joint effect of psychological contract state, employee outcomes, equity sensitivity and leadership style on organizational performance

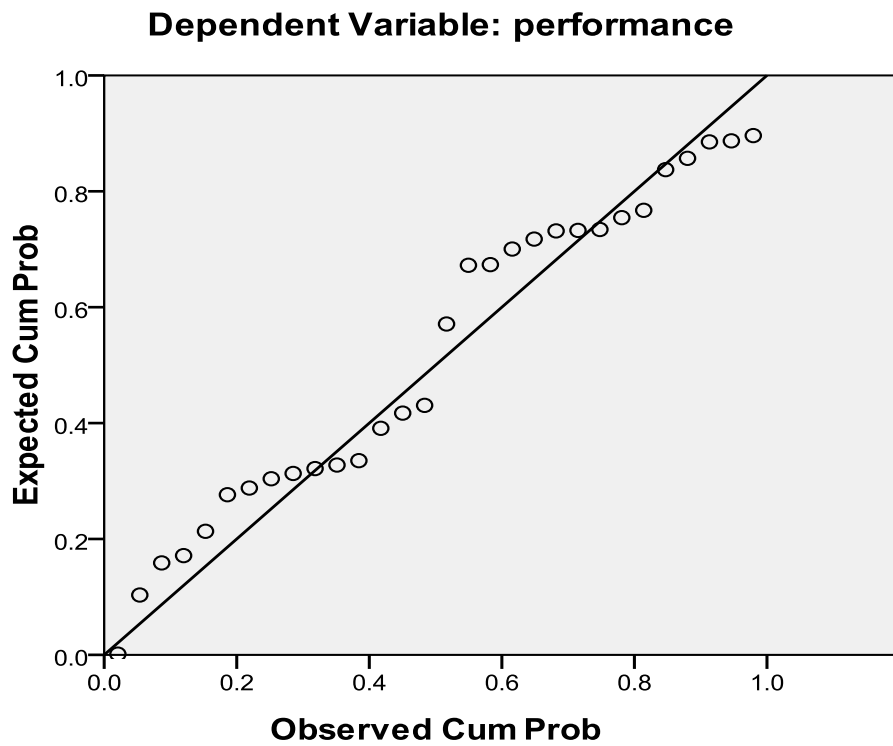
**Histogram**



**APPENDIX 13B: EFFECT OF PSYCHOLOGICAL CONTRACT STATE,  
EMPLOYEE OUTCOMES, EQUITY SENSITIVITY AND  
LEADERSHIP STYLE ON ORGANIZATIONAL  
PERFORMANCE**

P-P plot of joint effect of psychological contract state, employee outcomes, equity sensitivity and leadership style on organizational performance

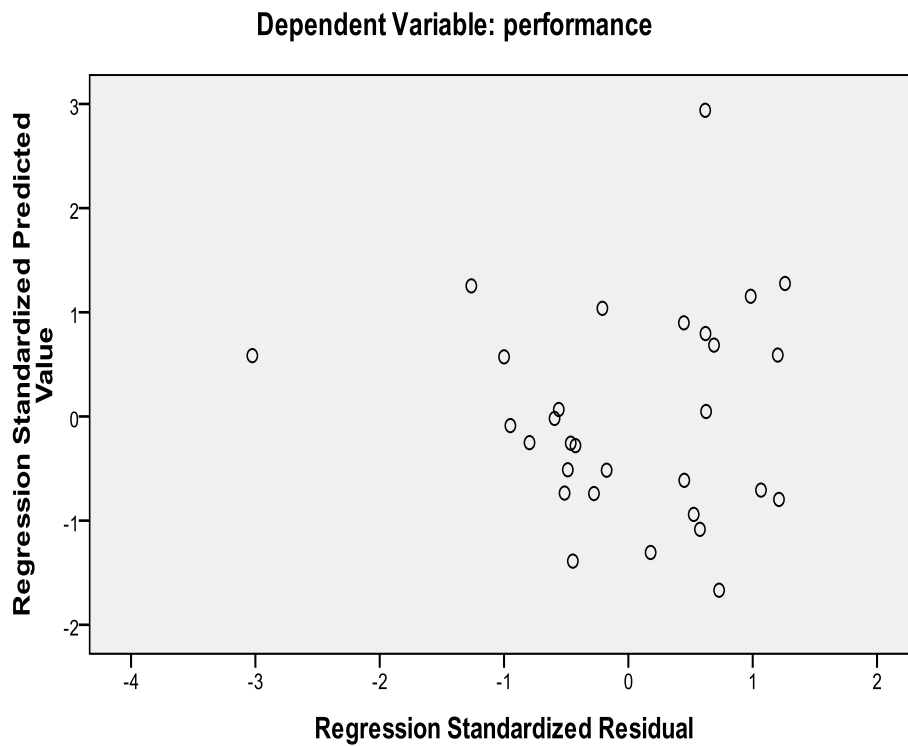
**Normal P-P Plot of Regression Standardized Residual**



**APPENDIX 13C: EFFECT OF PSYCHOLOGICAL CONTRACT STATE,  
EMPLOYEE OUTCOMES, EQUITY SENSITIVITY AND  
LEADERSHIP STYLE ON ORGANIZATIONAL  
PERFORMANCE**

Scatter-plot of joint effect of psychological contract state, employee outcomes, equity sensitivity and leadership style on organizational performance

**Scatterplot**



**APPENDIX 14: RESULTS FOR TEST OF NORMALITY**

**Scatterplot**

**Dependent Variable: performance**

