

# CHANGES IN EMPLOYER-EMPLOYEE RELATIONSHIP: IMPACT OF PERCEIVED ORGANIZATIONAL SUPPORT ON SOCIAL EXCHANGE OF THE OUTSOURCING INDUSTRY IN SRI LANKA

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## **Abstract:**

*The employer–employee relationship identified as social exchange relationship in the organization. The exchange determines the employee work outcomes which are greatly influenced by the Perceived Organizational Support (POS) and Organizational Commitment (OC). This paper mainly focused to evaluate the social exchange and the impact on the employee work outcomes in the outsourcing industry in Sri Lanka. The questionnaire survey method was used among 200 Information Communication Technology (ICT) professionals. The results indicate that POS establishes significant positive relationship with social exchange. This distinguished relationships facilitated and moderated by the organizational commitment. The researcher identified that the employer-employee relationship becomes absolutely paramount for a business process outsourcing organization, since the human capital becomes the most critical success factor because the business solutions tailor-made for a delivery organization are brain-born babies of their employees.*

**Keywords:** *Perceived organizational support, Organizational commitment, and Social exchange.*

## **1. Introduction**

Sri Lanka plays a major role in outsourcing business in today's context. There are over 300 IT and BPO companies. Earnings from exports of IT-BPO sector have shown a steady upward trend during the past decade, Sri Lanka is clearly emerging as a global sourcing destination in the region. IT-BPO exports have reached an estimated \$ 275 million in 2006. The industry has set a target of \$ 1 billion in export revenue from IT-BPO sector by 2016. Developing ICT and professional services off shore opportunities should be a high priority for development-oriented countries such as Sri Lanka. Sri Lanka moving up the ranking highlights its improving strengths as an outsourcing destination. IT/BPO and Knowledge Service industry is targeted to grow to become a billion dollar industry by 2016.

The Global Services Location Index (GSLI), analyses and ranks the top 50 countries worldwide as the best destinations for providing outsourcing services, including IT services and support, contact centres, and back-office support. Sri Lanka ranked number 21 in the index in 2011. The report positively stated that Sri Lanka has been promoted in the rankings assisted by low costs compared to the rest of the destinations. The combination of high people skills, favourable business environment and low cost enables India, China and Malaysia to be in the top three slots.

The outsourcing industry in Sri Lanka continues to be one of the key drivers of economic growth. As per Central Bank of Sri Lanka, the outsourcing industry is growing about 23% per annum, work force to be increase from 5,000 in 2004 to 50,000 in 2012 and yield per employee to be increased from US\$ 20 in 2004 to US\$ 40 in 2012. Sri Lanka is emerging as a global IT-BPO destination of choice in number of key focus domains. Global Services Magazine ranked Sri Lanka among top 20 'Emerging Countries'. This is mainly due to the very competent labour pool among the IT workforce, 43% of people have a degree or higher qualification in IT; around 84% have more than a year's experience. More than 5500 graduates with IT related degrees and post graduate degrees are now joining the workforce each year, Further, the country produces close to 400,000 English speaking, IT literate individuals each year.

The research question was that "Due to what factor is the highest attrition rate caused?" and "why 'employer-employee social exchanges are not working well specially in the outsourcing industry?" Therefore, the objective of this study is to be :

- ✓ To find out the existing Employer- Employee social exchange of professional employees of outsourcing companies in Sri Lanka.
- ✓ To evaluate how the work outcomes are affected by the social exchange.
- ✓ To identify and determine the factors that influence social exchange in order to gain better outcome.

Hence the purpose of the research is to identify the nature of social exchanges that exist in the delivery of organizations and demarcate the factors that influence the work outcomes.

## **2. Literature**

### ***Social Exchange Process***

Social Exchange Theory explores relationships and their possible impact, and explains that people continually seek a balance in what they invest in a relationship and what they receive in return. Cropanzano and Mitchell (2005) have studied, in particular, the effects of good interaction on employee's trust and commitment. Sharing analogous principles and opinions helps those interactions (Lawler & Yoon 1996), while variability in these factors may have negative effect (Hooper & Martin 2008). Focusing on the relationship between supervisor and employees, Social Exchange Theory helps to analyse how staff social interactions facilitate the exchange of resources, knowledge, time and emotional support. However, the supervisor–subordinate relationship refers to a process model. Easier access to information, help and involvement in decision-making can be the consequences of an effective supervisor–subordinate relationship (Wang et al. 2005).

Further, Blau and Boal (1989) explained, people determine how equitable a reward is after comparing their inputs and outcomes with those of their co-workers. A balance between inputs and outputs, in comparison to others, strengthens social bonds between the parties and enhances relationship longevity. Both psychological contract and organization

commitment literatures have emphasized the importance of employee perceptions of the exchange relationship with the organizations. The commitment is best conceptualised as a social exchange relationship in which perceived value or perceived organizational support represent the employer side of exchange (Eisenberger, et.al 1990).

In the literature, trust, investment and long-term orientation are viewed as the basis for the relationship underlying social exchanges. In fact, investment and trust are intertwined in exchange relationships with some inherent risk that the investment will not be repaid, requiring trust. However, social exchanges require a long-term orientation, since the exchange is ongoing and based on feelings of obligation (Blau, 1964; Eisenberger, et.al, 1987; Cotterell, et.al 1992; Rousseau, 1995).

### ***Perceived organizational support***

Perceived organisational support is an example of workplace relationships and can be conceptualised using social exchange theory because it is also based on the idea of reciprocity between employees and the organisation. It is defined as an employee's perception of the extent to which the organisation values the work done and cares about them (Allen et al. 2003). The training is likely to be put into practice if employees receive organisational support Gumuseli and Ergin (2002). In addition, in some studies, perceived organisational support has been found to have a greater impact on affective commitment compared with supervisor-subordinate relationships, and engagement of employees (Settoon et al. 1996; Saks 2006). Eisenberger et al. (2002) found that perceived organisational support significantly affected commitment, citizenship behaviour and retention, and the impact depended on the quality of perceived reciprocity that had occurred. However, there is less research examining the relationship between workplace relationship and engagement, especially in the ICT environment.

Perceived organisational support is defined as the extent to which employees perceive that their contributions are valued by their organization and that the firm cares about their well-being (Eisenberger et al., 1986; Cropanzano & Mitchell, 2005). Essentially, social exchange theory applied in the work context argues that employees are willing to exchange their effort and time for various rewards offered them by the organization. Social exchange theory posits that employees are willing to exchange work performance for additional factors that are less tangible such as feeling valued and supported. Perceived organisational support signals an employer's commitment to employees whereby employees reciprocate with increased efforts to help the organization. High perceived organisational support provides an indication that extra effort and performance will be noted and rewarded. Low perceived organisational support, on the other hand, implies that employees are disadvantaged in their exchange relationship with the organization and they run the risk that their efforts and performance will fail to be adequately compensated (Olga Epitropaki and Robin Martin, 2013).

Employees perceptions of high perceived organisational support will be accompanied by views of increased access

to various resources. The high perceived organisational support will constitute a resource-munificent condition whereas low perceived organisational support will be experienced as a resource-constrained condition. When perceived organisational support is high, employees will trust the organization to provide them access to the valuable resources. As a result, employees will be likely to use soft tactics to influence a manager. Rhoades and Eisenberger (2002) indicated that three general categories of favourable treatment received by employees such as fairness of treatment, supervisors support, and rewards and job conditions are positively related to perceived organizational support, which, in turn, is associated with outcomes favoured by employees - increased job satisfaction, positive mood, and reduced stress and the organization - increased affective commitment and performance and reduced turnover.

### ***Organizational Commitment***

Organizational commitment is the employee's psychological attachment to the organization. It is an attitude which can be contrasted with other work and related employee attitudes. Beyond this general sense, organizational scientists have developed many definitions of organizational commitment. An individual's perceptions of their reciprocal obligations are often generated very early in the employer-employee relationship and can cover a range of issues including promotional opportunities, training and development, and the level of decision-making responsibility that the employee will receive (Turnley and Feldman 2000). According to Meyer and Allen's (1991) three-component model of commitment, which characterize an employee's commitment to the organization. Affective Commitment: is defined as the employee's positive emotional attachment to the organization. An employee who is affectively committed strongly identifies with the goals of the organization and desires to remain a part of the organization. Continuance Commitment: The individual commits to the organization because he or she perceives high costs of losing organizational membership, including economic costs (such as pension accruals) and social costs (friendship ties with co-workers) that would be incurred. And Normative Commitment: The individual commits to and remains with an organization because of feelings of obligation.

### ***Superior Work Performance***

The human relations school of managerial thought (Roethlisberger and Dickson, 1967), which basically argues that employee performance will improve as the employment relationship improves, has resulted in a wide variety of theories attempting to explain why this change occurs. The explanation provided by social exchange argues that the employee may perform at a higher level because an employee perceives an obligation to reciprocate for social gifts granted by the employer (Organ, 1977). Given social exchange arguments and past empirical evidence, we believe that perceived organizational support will be linked to both task and contextual performance. Social exchange theory suggests that positive perceptions about the employment relationship will lead to beneficial work behaviours through the process of obligatory reciprocation (Blau, 1964). The concept of the commitment is close to the concept involvement and identification. It can be argued that commitment can be

viewed as an attitude or proximity towards the organization which links or attaches the identity of the employee, often to the organization.

**Organizational Citizenship Behaviours**

Organizational citizenship behaviour is a unique aspect of individual activity at work, first mentioned in the early 1980s. It represents individual behaviour that is discretionary, not directly or explicitly recognized by the formal reward system, and in the aggregate promotes the efficient and effective functioning of the organization Organ (1988). These behaviours are rather a matter of personal choice, such that their omissions are not generally understood as punishable. Organizational citizenship behaviours are thought to have an important impact on the effectiveness and efficiency of work teams and organizations, therefore contributing to the overall productivity of the organization. Organizational citizenship behaviours are often considered a subset of contextual performance, employee behaviours, although not critical to the task or job, serve to facilitate organizational functioning (Lee and Allen, 2002).

**Relative Absenteeism**

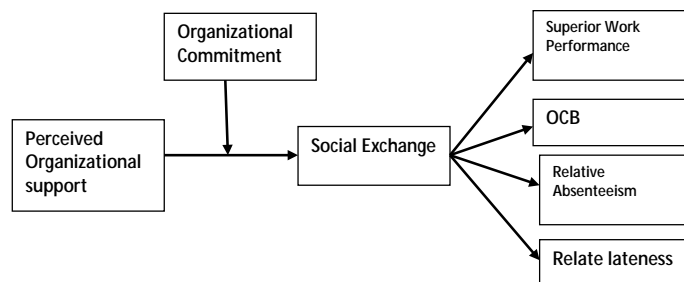
Absenteeism is a habitual pattern of absence from a duty or obligation. Traditionally, absenteeism has been viewed as an indicator of poor individual performance, as well as a breach of an implicit contract between employee and employer; it was seen as a management problem, and framed in economic or quasi-economic terms. Frequent absence from the workplace may be indicative of poor morale or of sick building syndrome. However, many employers have implemented absence policies which make no distinction between absences for genuine illness and absence for inappropriate reasons. One of these policies is the calculation of the Bradford factor, which only takes the total number and frequency of absences into account, not the kind of absence. Employee absenteeism is the absence of an employee from work (Nelson & Quick 2008). It is two types: Innocent absenteeism - is one in which the employee is absent from work due to genuine cause or reason. It may be due to his illness or personal family problem or any other real reason and Culpable Absenteeism - is one in which a person is absent from work without any genuine reason or cause. He may be pretending to be ill or just wanted a holiday and stay at home.

**Relative lateness**

Lateness behaviour can be described as arriving at work after scheduled time (Shafritz, 1980). Typically, lateness is addressed in the literature as withdrawal behaviour, a category that includes absence and turnover as well (Herzberg 1957). Compared to the latter behaviours, lateness is a milder form of withdrawal, not every case of late arrival can be considered a violation of company rules. Another distinctive characteristic of lateness is that typically it is a violation of behaviour within the employees' control. Whereas worker dismissal is an involuntary type of turn over, and certified sickness or funeral attendance can be classified as involuntary absence (March and Simon, 1958). Most of the lateness occurrence can be avoided. Indeed, although some cases of lateness are not made intentionally. Blau (1994) has indicated, that proper time management may reduce the tardiness even when the

immediate cause is not with the employee's direct control. From the late employees perspective, lateness behaviour may indicate the initial withdrawal from the work, that may deteriorate towards more sever withdrawal such as absenteeism and turnover.

The literature constructively discusses the strategic subject's areas which are required for this research in a standardized manner. While the contracts virtually exists in distinguished dimensions the incorporated literature illustrates that the social exchange to have relationship with superior work performance, organizational citizenship behaviour, relative absenteeism and relative lateness.



**Figure 1: Illustrate the Conceptual Frame Work**

The above conceptual diagram was developed based on the existing literature incorporated in this research study. It is constructively argued that perceived organizational support is linked to organizational exchange process via organizational commitment as a moderator. Further, the exchange process results in the social exchange which in turn influences the work related outcome of employees.

*Hypothesis1:* Higher POS is positively correlated to social exchange process by moderating organizational commitment which leads to positive superior work performance and organizational citizenship behaviour.

*Hypothesis2:* Higher POS is positively correlated to social exchange process by moderating organizational commitment leads to negative relative absenteeism and relative lateness.

**3. Research Methodology**

A large number of small players primarily dominates the outsourcing industry in Sri Lanka. The study was limited to a few selected players in the outsourcing organizations located in Colombo city. The study has carried out user satisfied sampling approach within the 200 selected samples in five organizations. The sample included the male and female distribution rate as per the organizations proportionate. Population data was gathered using a quantitative technique method by standard questionnaire. The sample is realistic and purposeful. It is comprised of employees from all functional areas such as delivery, process, HR, finance, training, IT, and administration. The researcher meaningfully used the Likert scale to measure the deviation of answers. All variables were measured using a 7-point scale from 1 (strongly disagree) to 7 (strongly agree). Further the researcher used regression analysis, ANOVA analysis, and Correlation analysis to analyse the variables. The study used descriptive mean analysis, standard deviation and standard error analysis to validate the reliability of the data.

#### 4. Analysis

##### *Descriptive Statistics*

Out of 200 usable questionnaires 144 responses were received with the response rate of 72%. The average mean age range is between 26-31. Averagely 60% of the employees have a first degree and 20% have a master's level or diploma level qualification. It is highlighted that 1 out of 5 employees have a master's level qualification such as MBA, MSc. However 1 employee out of 5 also is identified with Diploma or Advanced Diploma level qualification. The selected sample comprised of 48.2 % Male and 50% Female employees. It is evident that 42% of the females' employees are employed in the junior- middle level layer. However only 28% of the male segment belongs to junior – middle level segments and 14% of the male segments belong to senior or higher role. This displays a very clear disparity in the male and female employment distribution. Further 70.1% of the employees are demarcated in the permanent cadre. 29.99% of the employees are identified either in the probation or contract status. It is evident that 54% of the employees were in the 6 -12 month tenure, 17% being in the 12-60 months tenure, 5% of the employees with greater than 60 months, and 24% of the employees belongs to less than 6 months tenure.

The study analysed the overall means of independent, depended variables and the attributes. It is highlighted that the perceived organizational support represent the maximum mean scale 7 among the rest. The social exchange and organization commitment were consecutively the highest scales at 6.67 and 6.75. The relative lateness accounts for the lower mean scale 1.80. Interestingly, superior work performance constitutes the highest average mean of 5.37 all entire variables. The second highest average mean is recorded by organizational commitment 5.05, followed by the third highest average means in the perceived organizational support 4.84. The above analysis justifies the validity and the reliability of the data. The average mean analysis, highest and lowest mean scale justify that the employees were able to concisely select or distinguish the individualistic answers easily incorporated in the questionnaire and constitute the reliability.

##### *Perceived Organizational Support and Social Exchange (M1)*

The perceived organizational support was analysed using three dimensional frame work model which included a support from the organization, recognition for employee innovative ideas, and employee attitude towards organization brand equity. The employee attitude indicates the highest mean value of 5.12 while the factor support from the organization shows the lowest mean value of 4.68. All means values have low standard error and low standard deviation. Overall, perceived organizational support was calculated by averaging these values of attributes and the mean value of 4.84.

The research identified perceived organizational support illustrates a positive relationship with social exchange. The model summary explains R<sup>2</sup> 30.2 percent of total variation observed in the dependent variable of social exchange. The analysis of variance (ANOVA) of the model was highly significant at 0.01 level. The regression analyses explain

independent variable perceived organizational support has 51.2 percent positive impact on the depended variable social exchange. The coefficient demonstrates the marginal impact of an independent variable.

##### *POS, Organizational Commitment and Social Exchange (M2)*

The model summary explains R<sup>2</sup> 44.9 percent of total variation observed in the dependent variable social exchange. This indicates when organizational commitment plays a moderator role 14.7% increased sensitive variation can be expected. This justify that organizational commitment plays a facilitation role with the independent variable. The analysis of variance (ANOVA) of the model was highly significant at the 0.01 level. The regression analysis explains independent variable perceived organizational support has 33.8% positive impact on the depended variable social exchange. However, moderator variable organizational commitment plays a very significant role by placing 49.7% positive impact on the social exchange. This shows that the organizational commitment plays a facilitation role with the perceived organizational support and holding the domination to a greater degree.

This study compared and contrast perceived organizational support, organizational commitment and social exchange to determine how the relationship distribution varies across distinguished male and female segments. The male vs female analysis doesn't indicate significance variation on the total variation. The social exchange doesn't significantly depend on gender. The analysis of variance (ANOVA) of the model was highly significant at the 0.01 level. The female segment coefficient analysis indicates that perceived organizational support shows relatively positive relationship of 27% with social exchange. The male segment coefficient analysis indicates that perceived organizational support shows a positive relationship of 15.2% with social exchange. The Female segments indicates perceived organizational support is relatively high 12% compared with male segment, the possible root cause is females generally seek better opportunities, the public relation has been comparatively less compared with male. Coefficient analysis indicates that the female segment shows very high positive relationship with social exchange and it is 7% higher compared to the male segment. The female segments shows relatively higher deviation compared with the male segment. It is possibly due to female takes longer period of time to build commitment and it is very consistent.

The study compared and contrast perceived organizational support, organizational commitment and social exchange to determine how the relationship distribution varies across the distinguished permanent and other categories of employees. The permanent vs. other employees' analysis indicates 46% variation is the depended variable. Permanent vs. others analysis indicates decreasing positive variance 41% on the depended variable. However it is 5% less compared to the other segments, the other type of employees shows inferior social exchange compared to permanent employee. This is due to they are in the early stage or short term of their employment trying to build the social exchange with their organization. The Permanent employees disclose relatively better social exchange than the other type of employees.

It is evident that social exchange is built only in the long term basis and approach. The analysis of variance (ANOVA) of the model was highly significant at the 0.01 level. Coefficient analysis indicates that perceived organizational support shows a positive relationship of 38.9% with social exchange, Coefficient analysis indicates that perceived organizational support shows very inferior 7.7% positive relationship with social in the probation or contract employees. Probation or contract employees are not long lasting consistently, they disclose lower perceived organizational support. It is evident that perceived organizational support is not built in the short term. Permanent employee segment indicates that they disclose perceived organizational support very significantly compared with the probation or contract segment. It is evident that a perceived organizational support can be only build in longer term perspective.

Coefficient analysis indicates that organizational commitment shows significant variation on the dependent variable 4.3%. It discloses 65% with social exchange. Probationary or contract type segments illustrate a greater degree of commitment to the organization than the permanent employees since they wanted to achieve a better and stable position in the current organization, hence they keep higher energy and maintain higher organizational commitment. The permanent employee segment shows less organizational commitments compared with the probation and other type of employee segment. Maybe, they have already achieved stable positions in their job roles.

The work outcome is measured based on the data input. It is evident that all work outcomes resulted in considerable total variance on the social exchange while the perceived organizational support acted as the independent variable and the organizational commitment was moderated. The highest variation is monitored in the organizational citizenship behaviour 49.9%, the lowest was identified in the relative absenteeism 45.3%. Superior Work Performance and the relative absenteeism are accounts for 45.9 percent. Having considered the coefficient values it is possible to come to the decision that the perceived organizational support has 8.80 % positive relationship on the superior work outcome while the social exchanges acts as a dependent variable. Organizational citizenship behaviour accounts for 45.6% positive relationship. However, the coefficient value indicates that relative absenteeism and relative lateness has a negative relationship with perceived organizational support and social exchange. Relative absenteeism constitutes 29.7% negative relationship, whereas relative lateness has 18.9% negative relationship.

It is evident that overall the moderator organizational commitment enhances the relationship further than the perceived organizational support alone. The highest facilitation 47% was identified in the relative absenteeism and it is a negative impact. The lowest facilitation in relationship was identified in organizational citizenship behaviour 6.25%. Superior work performance and relative lateness consecutively accounts for 38 percent positive and 27% negative facilitation in their relationship with their specified variables.

## 5. Conclusions

BPO organizations provide limited attention to distinguished dimension of productive exchange. The employer – employee social exchange is an existing reality. It is absolutely essential for BPO companies to maintain it to a rational level to consistently determine high productivity in employees work outcome. It is justifiable that the exchange process is primarily influenced by the culture, which opens many avenues for future research. Exchange process illustrates clear disparity among educational level, gender, experience, tenure and employee tier. It can be argued that the exchange process can be subjectively quantified and measured by establishing a human resource accounting system enabling the employees to have on Individual Exchange Index (IEI), possibly this can be utilized to determine productivity and ROIs. This subject area creates room for future research. Even though BPO companies understand and use productive exchange in a constructive manner, they are not using the exchange as a business strategy to generate profits due to a greater degree of risk imposed by the environmental factors.

Social exchange is built on a long term perspective and trust determines the baseline and is highly significant in the non-permanent segments; possibly they wanted to develop themselves as informal group to eliminate the risk factor to their job role. Perceived organizational support and social exchange relationship is very significantly facilitated by the organizational commitment. It acts as a positive inducer in determining the superior work performance and organizational citizenship behaviour. Social exchange process remains high among the employees who have the correct combinations of managerial and technical knowledge. Does technical knowledge facilitate social exchange is interesting subject area for future research. Social exchange being very strong among the female employee compared with male workers in the BPO sector. Social exchange generate optimum productivity, however it is amazing to identify a less or number of female employees are holding managerial position in the BPO sector due to the Asian culture.

Organizational citizenship behaviour is increasingly involved in social exchange. The availability of organizational citizenship behaviour is absolutely critical to generate productive exchange. The positive (superior work performance and organizational citizenship behaviour) and negative work outcomes (relative lateness and relative absenteeism) relationship, variation and impact are facilitated and moderated by the organizational commitment proportionally. Perceived organizational support generated positive relationship with the social exchange, the relationship is very negatively enhanced while the moderator organizational commitment is involved. Organizational commitment is comparatively very high among the contract and external employees than among permanent employees.

Even though the social exchanges have received relatively less significant focus or limited attention in the BPO companies, they are strategic important elements or facts in the employment exchange or relationship. They are the baseline to decide whether retaining an employee is worth while or profitable for an organization in the long run. Possibly the research

will help the organization make strategic decision which may increase the productive exchange, often with correct understanding an awareness. Work force layoffs, reducing work force, use of contract workers provide distinguished insight to workers about the type of psychological contract they have with their organization. The researchers wish to see BPO organization focus comprehensively to revise the employees' base who feel that their existing psychological contracts need re-visiting. Based on this research, it is clear that the employer- employee exchange and the employee work outcome is strategically important to organizational phenomenon among the BPO sector in Sri Lanka, which provide the correct basis for understanding the bond between their employees and organization.

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**Table 1: Descriptive Statistics and Regression Analysis of models**

Variables	Mean	SD	Social Exchange	
			M1	M2
Perceived Organizational Support	4.84	1.04	a	a
Social Exchange	4.69	0.97	b	b
Superior Work Performance	5.37	0.75		
Organizational Citizenship Behaviour	4.82	0.49		
Relative Absenteeism	4.55	0.68		
Relative Lateness	3.43	1.00		
Organizational Commitment	5.05	0.83		a
R			0.550	0.670
R <sup>2</sup>			0.302	0.449
Adjusted R <sup>2</sup>			0.297	0.441
Std. Error			0.814	0.726
F			61.43	57.35
Sig			0.000*	0.000*

a. Predictors: (Constant), Perceived Organizational Support, Organizational Commitment  
 b. Dependent Variable: Social Exchange, and \* Significant at 0.05 level.

**Table 2: Model Summary and Regression Analysis of Work Outcomes**

Variables	Mean	Workout comes			
		SWP	OCB	RA	RL
Perceived Organizational Support → Social Exchange	R <sup>2</sup>	0.307	0.393	0.327	0.321
	Sig	0.000*	0.000*	0.000*	0.000*
	□	+0.054	+0.048	-0.099	-0.014
Perceived Organizational Support + Organizational Commitment → Social Exchange	R <sup>2</sup>	0.459	0.499	0.453	0.459
	Sig	0.000*	0.000*	0.000*	0.000*
	□	+0.088	+0.456	-0.297	-0.189

a. Predictors: (Constant), Perceived Organizational Support, Organizational Commitment  
 b. Dependent Variable: Social Exchange, Economic Exchange  
 \* Significant at 0.05 level.

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