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The mediating effect of psychological contract in the relationships between paternalistic leadership and turnover intention for foreign workers in Taiwan

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ABSTRACT

To help resolve its labor shortage problems, Taiwan has been using foreign workers since 1989, and the number of foreign workers coming to Taiwan has been increasing in recent years. This study investigates the relationships between paternalistic leadership, psychological contract and turnover intention for Indonesian workers in Taiwan. The samples were 363 valid questionnaires received. We use the structural equation model (SEM) to empirically explore the relationships. The results show that moral paternalistic leadership positively affects the psychological contract; that authoritarian paternalistic leadership also positively affects the psychological contract, and authoritarian paternalistic leadership positively affects turnover intention. In addition, the psychological contract fully mediates the relationship between paternalistic leadership (moral and authoritarian) and turnover intention. These research findings are also examined by the moderating effect for paternalistic leadership (moral and authoritarian) and turnover intention.

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1. Introduction

It is now common for people of many different social classes to work abroad in response to globalization. Some employers may be motivated to use contract employees on a temporary basis for several reasons, such as lower wages, fewer fringe benefits, and more flexibility of working hours. Taiwan is one nation that uses foreign workers. To solve labor shortage problems, the Council of Labor Affairs of Taiwan (CLA) has permitted the use of the foreign workers since October 1989, with workers coming from many countries, including Indonesia, Malaysia, the Philippines, Thailand, Vietnam, and Mongolia. The number of foreign workers coming to Taiwan is increasing annually, and by January 2012, a total of 426,378 foreign workers had arrived since the inception of this program, of which 177,904 (42%) were Indonesian. Due to the

increasing number of foreign workers in Taiwan, this study considers that there is a need to pay more attention to this issue as an aspect of managerial research.

Paternalistic leadership is a type of fatherly managerial style typically employed by dominant males where their organizational power is used to control and protect subordinate staff that are expected to be loyal and obedient. A manager with a paternalistic leadership style might be appropriate for a business with a more formal and hierarchical structure where creative thinking is not required of staff. On the other hand, paternalistic leadership is an approach that is based, intentionally or unintentionally, on the idea that the leader is in a better position than the followers to know best what is good for the organization, or the followers. In a nutshell it's the "leader as expert father figure". In today's climate where participation and involvement in the workplace are much more popular than before, the paternalistic leader often acts in ways that many leadership gurus would criticize. However, paternalistic leadership is still a leadership style on working places.

This study of the relationship between employer and foreign employees is of interest particularly due to the different backgrounds of employer and employee. In addition, based on statistics provided by the National Immigration Agency for foreign workers

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in productive industries and social welfare, there were 10,743; 14,143 and 16,320 missing foreign workers happened in Taiwan between 2009 and 2011. The numbers of missing Indonesian workers were 4672(43%), 6481(46%), and 7984(49%). In January 2012, Indonesian workers comprised 59% in the total of 1052 missing foreign workers that month. There is a total of 34,207 missing foreign workers in Taiwan, 43% of whom are Indonesian. This data shows that the total number of Indonesian workers in Taiwan increasing annually, as is the number of missing Indonesian workers, indicating that this is becoming a serious social problem.

In related previous research, [Collins \(2010\)](#) tested 328 managers and found that leader–member exchange (LMX) is positively related to psychological contract fulfillment, which is negatively related to turnover intention. Furthermore, the study of [Cheng, Chou, Wu, Huang, and Farh \(2004\)](#) found that paternalistic leadership is still a customary leadership style in Chinese organizations. Thus we could ask, in the case of Indonesian workers in Taiwan, how does the psychological contract affect the workers' turnover intention? Does paternalistic leadership also affect the psychological contract? LMX has also been found to mediate the relationship between LMX and turnover intention ([Collins, 2010](#)), so in this case, does the psychological contract also mediate the relationship between paternalistic leadership and turnover intention?

Therefore, this study aims to investigate the relationship between paternalistic leadership and turnover intention, with the psychological contract as mediator. An additional variable of age is also observed to see if it has a moderating effect in the relationship study. The rest of this study is organized as follows. In Section “[Related works](#)”, we present related works on the theoretical model development. Section “[Methodology](#)” describes the methodology, including the research framework, data collection, and measurement. Section “[Results](#)” presents the research results. Finally, Section “[Implications](#)” presents a research summary and implications.

2. Related works

2.1. Paternalistic leadership

Most leaders sometimes act in paternalistic ways, and make decisions on behalf of followers that work out well, and it's also a reality that leaders sometimes (or in fact, often) are in positions that allow them to have information, power and expertise that others in the organization may lack. Numerous studies, including that of [Farh, Cheng, Chou, and Chu \(2006\)](#) have reported that Chinese and Taiwanese employees place a high value on paternalistic leadership. As suggested by [Cheng et al. \(2004\)](#), paternalism is still a customary leadership style in Taiwanese business organizations. The definition of paternalistic leadership, however, has varied over time. In 1986, [Van DeVeer \(1986\)](#) defined paternalistic acts as those “in which a person, A, interferes with another person, S, in order to promote S's own good”. Later, paternalism was defined as a father-like leadership style in which strong authority is combined with concern and considerateness. In a more recent study, [Farh and Cheng \(2000\)](#) stated that paternalism stems from Confucian ideology, which is founded on social relations, such as “benevolent leader with loyal minister” and “kind father with filial son”. These principles are derived from the cultural expectations that a leader should be benevolent to his or her followers. [Cheng, Chou, and Farh \(2000\)](#) examined paternalism as a multidimensional construct, studying the differential impacts of different domains on outcome variables. Empirical research on paternalism continued with [Cheng et al. \(2000\)](#)'s depiction of paternalistic leadership as consisting of three dimensions: morality, benevolence, and authoritarianism. Morality refers to establishing virtue, referring to a business owner's high degree of personal integrity or self-cultivation in order

to set an example. Benevolence refers to a leader's behaviors that demonstrate individualized, holistic concern for employees' personal and family well-being. Authoritarianism is similar to imposing prestige, referring to highlight leader's authority, not allowing any challenges and demanding the subordinate's obedience.

2.2. Psychological contract

In the area of psychological contracts, [Argyris \(1960\)](#) and [Levinson, Price, Munden, Mandl, and Solley \(1962\)](#) made significant contributions to the research terminology. [Argyris \(1960\)](#) first used the term “psychological work contract” to describe an implicit understanding between a group of employees and their foreman that arose as a result of a particular leadership style. [Levinson et al. \(1962\)](#) defined psychological contracts as “a series of mutual expectations of which the parties to the relationship may not themselves be dimly aware but which nonetheless govern their relationship to each other”. The expectations mentioned include both unconscious and conscious ones, and the expectations that lead to a psychological contract should have two characteristics: (1) being unspoken and (2) antedating the formation of the contract. In the early years of the psychological contract studies, the definitions and concepts introduced by these authors showed slight differences. [Rousseau \(1989\)](#) argued that previous researchers' concepts of expectations were difficult to comprehend as a whole, and can be seen more as a multiple collective of diverse and differing expectations held by a set of actors. [Rousseau \(1989\)](#) presented a narrower definition from the perspective of the individual as the central element, defining psychological contracts as an individual's belief regarding the terms and conditions of an agreement between that person and another party. Key issues here include the belief that a promise has been made and some consideration offered in exchange for this agreement, binding the parties to some set of reciprocal obligations.

On the other hand, psychological contract framework is designed to understand organizational citizenship behavior (OCB) ([Coyle-Shapiro, 2002](#)), employee–employer relationship ([Aselage & Eisenberger, 2003](#)), work behavior ([Sturges, Conway, Guest, & Liefoghe, 2005](#)) and role behaviors ([Uen & Chien, 2010](#)). To employers, it is a way to observe employee perceptions of psychological contract type over time. Accordingly, psychological contract is a role to influence working intention, attitude, and behavior between employee–employer relationships.

2.3. Turnover intention

In the early literature, [Price \(1977\)](#) defined “turnover” as the ratio of the number of organizational members who have left during the period being considered divided by the average number of people in that organization during the period. [Fishbein and Ajzen \(1975\)](#) suggested that turnover intention is the best measurement to evaluate workers' turnover behavior, and turnover intention is considered as the best anticipation for turnover ([Kraut, 1975](#)). Turnover intentions are an additional outcome of interest, one shown to be related to career commitment ([Edmondson & Boyer, 2013](#); [Lin & Ding, 2005](#)). The notion of met expectations or, alternatively, fulfilling the psychological contract ([Rousseau, 2004](#)), is at the heart of explaining how organizations affect individual behavior ([Ertürk & Vurgun, 2015](#); [Lin & Chen, 2004](#)). That is, the degree to which a company satisfies the career needs of its employees affects the employee–organization relationship. One way in which organizations can meet their career needs is by providing employees with opportunities for career growth. [Bedeian, Kemery, and Pizzolatto \(1991\)](#) found that career growth opportunities, or what they called the utility of the present job for one's career, were

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