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Social Contract and Perceived Justice of Workplace Practices to
Cope with Financial Crisis

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Abstract

This study examined the influence of type of social contract (i.e., transactional vs. relational) on how organizations responded to financial crisis in Turkey. Moreover, it examined the role of social contracts in moderating the relationship between type of response strategies organizations used and justice perception of employees. Participants were 132 full-time employees from 85 different business organizations. Data were collected through self-administered questionnaires. Results showed that as social contract tended to be more transactional, there was less focus on cost-cutting strategies in production, marketing and financial practices (PMF), whereas as social contract tended to be more relational, there was less focus on cost-cutting strategies in human resource management practices (HRM). Cost-cutting in PMF areas yielded low procedural justice when employees were in organizations that were high, rather than low on transactional contracts. Whereas, cost-cutting in HRM areas resulted in low distributive justice when employees were in organizations that were high, rather than low on relational contracts. Perception of procedural justice was associated with organizational commitment, while perception of distributive justice was related to psychological well-being.

Social Contract and Perceived Justice of Workplace Practices to
Cope with Financial Crises

Financial crises have become part of regular organizational life in emerging markets in late 1990s and early 2000s. Although financial crises have been prevalent in less developed countries for many years, they have grown to be larger and more disruptive in the last 20 years, which coincides with the era of “economic opening” (Eichengreen et al, 1995; Palma, 1998). Organizations in countries like Argentina, Brazil, Mexico, Thailand, Russia, and Turkey have been coping with waves of financial crises that paralleled the reduction of barriers against foreign company activities such as imports, foreign direct investments and foreign portfolio investments (Mudd, Grosse, & Mathis, 2002). Organizations in emerging economies have gained experience in developing short-term and long-term strategic responses to deal with financial crises. Which strategy to use and how it will affect employee perceptions of justice and attitudes is partly influenced by the type of social contract between the organization and its employees.

Local and multinational companies operating in emerging markets develop strategies that are geared towards dealing with cost structure, revenue structure and risk profile, most of which require parallel responses in human resources policies (Eren, Bildirici, & Fýrat, 2000; Mudd, Grosse, & Mathis, 2002). Many organizations temporarily shut down, decrease production, and reduce costs. As a result of these policies employees at all levels face layoffs, reduced salaries and fringe benefits. In their analysis of the 1998-1999 East Asian financial crisis, Beaverstock & Doel (2001) noted that numerous European and North American banks managed risk and uncertainty by downsizing employment levels in order to reduce fixed costs in the region.

In addition to the organizations in emerging economies, downsizing has become a strategy adopted by many companies in the western world since 1990s. Downsizing and

layoffs have become a common practice in contemporary organizations, even in countries and companies historically known for their long-term employment practices and job security. Researchers have stressed the increasingly temporary nature of employment relations in most developed nations of the world (Brockner, 1988; Rousseau, 1995). On the other hand, downsizing practices have various negative effects, such as stress and anxiety among victims and survivors of job loss, reduction in institutional knowledge, destruction in core elements of organizations and in the bond between a company and its employees (e.g., Brockner & Wiessenfeld, 1993; Buss & Redburn, 1983). Given the global trend towards implementing downsizing and other temporary employment practices as proactive management strategies (Freeman & Cameron, 1993), there is a need for more comprehensive analysis of factors that are associated with consequences of these human resources practices.

Previous research has shown that perception of justice has a strong influence on survivors' responses to downsizing and layoffs (Brockner, Tyler & Cooper-Schneider, 1992). Furthermore, perception of justice is influenced by the type of social contract that is prevalent in an organization (Morrison & Robinson, 1997). Depending on the type of relationship that the employees are in, they may perceive downsizing and restructuring practices as just or unjust. Thus, organizations that apply employee-related practices like, downsizing, salary reductions and work restructuring should take into account the prevalent social contract in their organizations and perception of justice as they relate to important outcomes among employees.

The main purpose of the study is to investigate the role of social contracts in employees' justice perceptions and reactions to such practices. In specific, the study has three objectives. First, it aims to analyze the influence of type of social contract on how organizations respond to financial crisis. Second, it aims to examine the moderating role of social contracts between an organization's response strategy and justice perceptions of

employees. In other words, it analyzes how justice perception regarding organizational responses and practices in times of crisis would vary depending on the type of social contract that is prevalent in an organization. Third, it attempts to examine the influence of justice perception on employees' organizational attitudes, psychological well-being, and job performance. In summary, the main thrust of this paper is that the type of social contract (i.e., transactional or relational) affects how organizations respond to economic crisis. When there is congruence between the type of social contract and organizational practices, employees perceive justice and, in return, experience higher organizational commitment, psychological well-being and increased job performance. To test this framework (Figure 1), data were collected from companies operating in Turkey, which was an emerging economy experiencing a deep financial crisis.

Insert Figure 1 about here

Theoretical Background

Social Contract

A social contract refers to the assumptions, values, and norms about appropriate behavior within a social entity (Gough, 1963; Homans, 1961). In the context of an employment relationship, the social contract entails exchange, reciprocity, good faith, and fair dealing (Morrison & Robinson, 1997). The social contract indicates how the reciprocal exchange between the employees and their organizations has been conducted and how it should be conducted in the future.

Relational contracts pertain to open-ended relations that are non-specific in terms of time. They involve considerable investments by both employers and employees, and a high degree of mutual interdependence (Rousseau & Wade-Benzoni, 1994). Organizations that

create relational contracts are more likely to spend resources to develop employees, but tend to have poorly defined performance standards and requirements (Kabanoff, Jimmieson, & Lewis, 2000). On the other hand, transactional contracts have shorter time durations, are likely to focus on monetary exchanges, and entail well-specified performance standards. Employees within transactional exchange relationships are more concerned with immediate compensation and balance and thus would be more likely to interpret some practices during downsizing and restructuring as breach of contract and unfair treatments. On the other hand, employees within relational exchange are more concerned with long-term reciprocity and are more likely to believe that employee contributions will be fairly compensated in the future. In theory, it is possible to have a combination of relational and transactional social contracts in such a way that duration of the contract may be open-ended (like in the case of a relational contract) and contract requirement may be specific (like in the case of a transactional contract); this combination may be called a balanced contract (Rousseau & Wade-Benzoni, 1994). However, previous research provides a clear empirical support for two distinct types of social contracts, i.e., relational and transactional.

Transactional exchange. Some organizational contexts carry the assumptions, beliefs, and norms that promote transactional relationships. In transactional relationships, rewards are contingent on performance (Bass, 1990). Various theories of leadership and motivation, including path-goal theory of leadership (Evans, 1970; Gorgopoulos, Mahoney, & Jones, 1957; House, 1971) and expectancy theory of motivation (Lawler, 1981; Vroom, 1969) focus on clarifying rules, expectations, and providing rewards contingent on standards as ways of increasing employee motivation and commitment.

Transactional contracts are more likely to focus on exchanges that are shorter in duration and entail well-specified performance standards. They select individuals who already

have specialized expertise and experience rather than investing into training and development of employees. Staffing for such systems is based on short-term policy allowing for flexible firing and hiring as talent is needed (O'Reilly, 1994; Lee, 2001). Thus, organizations that have transactional contracts would tend to rely more on HRM-related cost-cutting strategies rather than change in production, marketing and finance (PMF) strategies in response to financial crisis.

Hypothesis 1: As social contract prevailing in an organization tends to be more transactional, there is less focus on cost-cutting strategies in PMF areas compared to cost-cutting in HRM areas.

Relational exchange. Relational exchange is characterized by a focus on the relationship and extending individualized consideration rather than on an exchange process between the employees and the organization. Several studies point to *paternalism* as one type of relational exchange (Aycan, Kanungo, Mendonca, Yu, Deller, Stahl, & Kurshid, 2000; James, Chen, Cropanzano, 1996; Kabasakal & Bodur, 1998; 2002; Kim, 1994; Paşa, Kabasakal, & Bodur, 2001). In a paternalistic exchange, the relationship between the agents in the organization is similar to the relationship between parents and children. Bennet and Iwao (1963) propose that a paternalistic relationship includes authoritarianism and hierarchy as well as a concern for employees' lives that goes beyond the actual work performance. Managers have a holistic concern for the employees like a parent would, and the employees would show respect, loyalty and deference to their superiors in a paternalistic relationship. A paternalistic exchange has more long-term implications for the agents rather than a focus on short-term transactions. In this social context, there is a shared norm of taking care of employees' well-being. Thus, it can be expected that organizations that operate with relational

exchange norms would tend to use cost cutting strategies in PMF areas, rather than applying HRM-related cost cutting policies in times of financial crisis.

Hypothesis 2: As social contract prevailing in an organization tends to be more relational, there is less focus on cost-cutting strategies in HRM areas compared to cost-cutting in PMF areas.

Social Contract and Perceived Justice

Justice has been defined in terms of understanding of what ought to be done, behaviors and outcomes that match standards and entitlements (Mikula, 1980). Organizational justice has been identified as an increasingly important issue for employees and managers and has been conceptualized as a two-dimensional construct – distributive justice and procedural justice (Greenberg, 1990; Tata, 2000).

Distributive justice reflects the fairness of the **outcomes** resulting from the workplace practices. Distributive justice has been considered implicitly within the context of equity theory (Adams, 1965), relative deprivation theory (Crosby, 1976), and referent cognitions theory (Folger, 1987). These theories propose that when employees receive positive or negative outcomes, they use principles of distributive justice such as equity or equality to evaluate them as just or unjust (Tata, 2000). The need norm that is added by Deutsch (1975) is particularly confirmed by Kaicheng (1998) as a third distributive justice criterion used by Chinese employees.

Distributive justice can be operationalized as the severity of the layoffs and reductions in outcomes, like the percentage of workers laid off, severance benefits extended to victims, the percentage of salary and benefit cuts (Brockner et al., 1994; Konovsky & Brockner, 1993) and the extent to which outcomes are fairly distributed with respect to employees' capabilities, effort, training (Chang, 2002), or need. Perceptions of distributive justice are also

influenced by the extent to which the burden is shared across levels in the hierarchy. Resource allocations that benefit top management at the expense of lower hierarchical levels result in appraising the practices as unfair (Brockner & Greenberg, 1990).

Procedural justice reflects the fairness of the **processes** used to implement the organizational practices. The construct of “interpersonal” justice refers to the quality of interpersonal treatment people receive when procedures are implemented and can be treated as a sub-category of procedural justice (Colquitt, Conlon, Wesson, Porter, & Ng, 2001; Cropanzano, Prehar, & Chen, 2002; Greenberg & Cropanzano, 2001). Procedural justice has implications for the economic outcomes that people will receive both in the short run and in the long run (Thibaut & Walker, 1975). In addition, people’s psychological needs, like self-esteem, self-identity, and affiliation are likely to be satisfied when they interact with others who are procedurally fair (Folger & Cropanzano, 1998). Brockner (2002) proposes that procedural fairness influences people’s attitudes and behaviors through several sense making processes. People use procedural fairness information to make inferences about responsibility for the outcomes and how much they can trust the other party. The more people see the other party as responsible for unfavorable outcomes, the more likely they are to feel resentful toward the other party. When people perceive the practices of the other party as fair, trust is elicited and they support the practices regardless of outcome favorability.

Procedural justice in a downsizing context can be operationalized in multiple ways, such as the decision rule used to determine who will be influenced by the practices, in terms of the amount of advance notice provided to the influenced employees, or whether reasons for practices are provided. A decision rule based on merit, where poorer-performing employees or those with less potential are influenced more by the negative practices first, contributes to perceptions of procedural justice (Brockner, 1988). When employees or survivors perceive

the decision rule to be politically based or random, they are less likely to see the implementation as fair and more likely to exhibit deconstructive responses. In addition, advance notice allows individuals to respond constructively by reducing the assessment of threat and providing assurance of advance notice (Brockner, Konovsky, Cooper-Schneider, Folger, Martin, & Bies, 1994; Kozlowski, Chao, Smith, & Hedlund, 1993). Procedural justice also has an interactional component, which refers to whether the other party treats employees with dignity and respect, and provides explanations for their actions (Bies, 1987).

Organizational practices that are considered inappropriate in one context may be perceived as appropriate because different contexts encompass different social contracts (Clark & Wadell, 1985). When employees perceive the breach of the contract as contradicting the prevailing social contract, the feeling of violation will be intense, leading to disappointment, anger, and perceptions of injustice (Morrison & Robinson, 1997). Thus, some organizational practices, like downsizing, pay reductions, and restructuring may be perceived as violations in some organizational contexts, whereas they may not be perceived so in other contexts. The type of exchange relationship will influence perceptions about whether a breach of contract has occurred. Whether a transactional relationship or a relational exchange is prevalent in the organization will influence perceptions of breach of contract (Ekeh, 1974; O'Connell, 1984; McLean Parks & Kidder, 1994). There is some support in the literature that perception of justice is influenced by the type of social contract in a social setting (Morrison & Robinson, 1997). On the other hand, no empirical work has been conducted on how the interaction between type of social contract and organizational practices influences perception of justice in organizations. It is our aim to examine the moderating role of social contracts between organizational practices and perceived justice. In specific, we expect that employees perceive cost-cutting in PMF areas to be less just if they are in an

organization with high transactional contracts, compared to those in organizations with low transactional contracts.

In contrast, employees perceive less justice in HRM cost-cutting if they work in an organization with high relational contracts, compared to those who work in organizations with low relational contracts. In other words, when organizational practices are not congruent with expected practices in lieu of social contracts (cf. Hypotheses 1 & 2), there is lower perception of justice.

Hypothesis 3: Cost-cutting in PMF areas is perceived less just by employees in organizations with high, compared to low transactional contracts.

Hypothesis 4: Cost-cutting in HRM areas is perceived less just by employees in organizations with high, compared to low relational contracts.

Perceived Justice and Organizational Outcomes

According to the conceptual model of the study (Figure 1), when organizations cope with financial crisis by cost-cutting in areas that are congruent with social contracts, employees are expected to perceive justice and, in return, experience higher commitment, psychological well-being and performance improvement. In general, there is strong evidence that both distributive and procedural justice perceptions have high correlations with each other and both justice perceptions are highly correlated with attitudinal constructs of organizational commitment and satisfaction (e.g., Chang, 2002; Colquitt, Conlon, Wesson, Porter, & Ng, 2001; Folgor & Konovsky 1989; Greenberg, 1987; Konovsky, Folger, & Cropanzano, 1987; Viswesvaran & Ones, 2002). Furthermore, both distributive and procedural injustice account for a significant amount of variance in employees' psychological distress (Tepper, 2001). These studies show that perceptions of fairness, commitment, satisfaction, and psychological well-being are closely related and point to a general morale issue in organizations. A recent meta-analytic evaluation of organizational justice studies

revealed that procedural justice was associated to a greater extent than distributive justice with organizational commitment, organizational citizenship behaviors and productivity (Viswesvaran & Ones, 2002). McFarlin and Sweeney (1992) also found that distributive justice was a more important predictor of personal outcomes, including well-being and job satisfaction, than procedural justice, whereas the reverse was true for organizational outcomes (i.e., organizational commitment).

Hypothesis 5: Perceptions of distributive justice is positively related to psychological well-being, whereas perception of procedural justice is positively related to organizational commitment.

Employees who remain committed and maintain their psychological well-being after the organizational change are less likely to experience decrease in their job performance (cf. Konovsky & Cropanzano, 1991; Mathieu & Zajac, 1990; Ostroff & Kozlowski, 1992). In contrast, those who are distressed because of the changes, especially if they are perceived to be unfair, would be inclined to exert less effort in their job and therefore perform poorly compared to their usual job performance.

Hypothesis 6: Organizational commitment and psychological well-being are positively related to performance improvement.

Method

Participants

Participants of this study were 132 employees of private sector business organizations in Istanbul, Turkey. Slightly more than half of the sample was comprised of males (55.4 %). The mean age was $M = 29.47$ years ($SD = 5.84$; range = 21-51 years). Sample's distribution of educational attainment was as follows: 6.9 % high-school, 7.9 % vocational high school; 56.7 % university, 26.5 % Master's, 2 % Doctorate. The mean year of working in the organization was $M = 3.48$ years ($SD = 2.49$; range = 1-15 years).

The sample was drawn mainly from the Alumni of the two large universities in Istanbul. We asked each alumnus to fill out the questionnaire or forward it to a colleague who met the sampling criteria. The sampling criteria included working in the organization for at least one year; working in a white-collar job; not holding a high-level managerial position (to minimize the social desirability bias in answering the questions); and working in a central branch or the Head Quarter to increase the familiarity with the company practices to cope with the financial crisis. To maximize the variance in organizational practices, we limit the number of questionnaires to two from each organization. The respondents filled out the questionnaire anonymously disguising their name as well as that of the organization. We received the questionnaires in sealed envelopes addressed to one of the researchers. When we matched the organizations based on organizational age, size, sector, and practices to cope with the economic crisis, we found that they came from 85 different organizations.

Mean age of the respondents' organization was \underline{M} = 24.18 years (\underline{SD} = 25.30; range= 1.5 - 138 years). The size of the organization ranged from 40 to 26,000 employees (\underline{M} = 833 employees; \underline{SD} = 89.93). The following sectors were represented in this sample: Finance: 27.5 %; Information Technologies (IT): 21 % ; Fast-moving-consumer-goods (FMCG), Telecommunication, Consulting, Public Relations / Advertisement: 6.5 %, each; Construction, Pharmaceutical, Petroleum: 4.5 %, each; other: 18.5 %. With respect to ownership status, 34 % of the organizations were subsidiaries of multinational corporations or have foreign partners, whereas 66 % were domestic firms. The sampled organizations were representative of the private sector business organizations in Istanbul in terms of both organizational characteristics and practices to cope with economic crisis (Istanbul Chamber of Commerce, 2002). The data were collected during January – May, 2002, corresponding to the second year of the economic crisis.

Measurement

There were eight parts in the questionnaire: type of coping strategy employed, type of social contract, distributive justice, procedural justice, organizational commitment, psychological well-being, performance changes, and demographics.

Type of coping strategy employed. The first part was comprised of fifteen questions on cost-cutting strategies and practices to cope with the financial crisis in two domains: 1) production, marketing, and finance (PMF; 5 questions), and 2) human resource management (HRM; 10 questions). The questions were generated on the basis of the statistics of the most common practices to cope with the financial crisis (Istanbul Chamber of Commerce, 2002). The questions are presented in Table 2. For each question, a dichotomous response category was available where 0 represented no change and 1 represented cost-cutting. Respondents were allowed to report cost-cutting in multiple areas. We created two indices by adding up responses to each question in two domains, separately. This resulted in two scores, one for cost-cutting practices in production, marketing, and financial areas (ranging between 0-5), the other for cost-cutting practices in human resource management areas (ranging between 0-10). High scores obtained from each question indicated cost-cutting in each domain, whereas low scores indicated no change (i.e., no cost-cutting).

Type of social contract. The next part in the questionnaire measured the nature of social contracts prevailing in the organization. Relational contract was measured by the Paternalism Scale developed by Aycan and Kanungo (Aycan, et al., 2000; Aycan, in press). Sample items included “Employees considered this workplace as their family”, “Managers protected employees as they would protect their own children”. The nine-item measure showed high internal consistency (Cronbach’s alpha = 0.89). Transactional contract was measured through a nine-item scale developed by Millward and Hopkins (1998), including items such as “We, in this organization, did our jobs just for the money”, “We worked only the hours set out in my contract and no more”. The scale showed good internal consistency

(Cronbach's alpha = 0.82). Eighteen items were combined and presented to the respondents in a mixed order. Response categories ranged from 5 (strongly agree) to 1 (strongly disagree).

Distributive justice. The third part aimed at assessing distributive justice. For that, we prepared a table. The first column of the table presented eleven criteria that were used in the most common HRM-related cost-cuttings: gender, age, level of formal education, job performance, number of years in the organization, level of job knowledge, loyalty to the organization, financial need, relationships with the colleagues, relationships with the managers and executives, and job position. In the second column, respondents were asked to rate each criterion on the basis of the extent to which it was influential in implementing the most common HRM interventions. For each criterion a 5-point Likert scale was used, ranging from 0 (this criterion was not influential) to 4 (this criterion was the most influential).

In the third column, respondents were asked to rate the fairness of the practices that they reported on the second column. In other words, they were asked to indicate how fair they perceived the extent of influence that each criterion had in determining HRM-related cost-cuttings. The rating scale here was a 5-point Likert scale ranging from -2 (not fair at all), 2 (very fair). Let us give an example. Suppose that one of the most common HRM practices to cope with the economic crisis was laying-off employees. If a respondent indicated on the second column that "*performance was the most influential factor*", then they were asked to indicate on the third column whether or not they perceived *this* as fair. We used the ratings on the third column as the measure of distributive justice. The internal consistency of this 11-item measure was (Cronbach's alpha) 0.93. The lower the score, the lower the perception of distributive justice.

Procedural justice. The next section in the questionnaire measured procedural justice. Similar to Colquitt (2001) and Kernan and Hanges (2002), we developed our measure of procedural justice on the basis of the seminal research in the area of organizational justice,

including that of Greenberg (1993) and Leventhal (1980). There were total of 12 questions in the measure, tapping three areas: procedural justice, informational justice, and interpersonal justice. Perception of procedural justice was measured by five items reflecting consistency, bias suppression and accuracy (Leventhal, 1980). Sample item included “Consistent standards and procedures were used in implementing changes in organizational strategies and practices to cope with the financial crisis”. Interpersonal justice was measured by three questions following Greenberg (1993) and Colquitt (2001), such as “Employees are treated with dignity and respect during the implementation of changes in organizational strategies and practices to cope with the financial crisis”. Information justice was measured by four questions based on Greenberg (1993) and Colquitt (2001). “The reasons for changes in organizational strategies and practices were explained clearly to employees by management”. Each question was rated on a 5-point Likert scale ranging from 1 (not at all) to 5 (to a great extent). The internal consistency for this measure was (Cronbach’s alpha) 0.89.

Outcomes. Organizational commitment was measured in the next section. The 15-item Organizational Commitment measure developed by Mowday, Porter, and Steers (1982) was used. The internal consistency (Cronbach’s alpha) for this measure was 0.89. Each statement was rated on a 5-point Likert scale (5 = strongly agree; 1 = strongly disagree). The higher the score on these scales, the higher the commitment.

Psychological well-being was assessed using a 21-item measure of depressive symptomology developed by Veit and Ware (1983). Respondents were asked to rate presence of each symptom in the last month using a 6-point Likert scale, ranging from 6 (almost always), to 1 (almost never). Scores on each item were reverse coded so that the higher score obtained from the scale indicated good psychological well-being. The scale showed high internal consistency (Cronbach’s alpha = 0.94).

The next section captured performance changes. Respondents were asked to report changes (if any) that occurred in their performance following organizational changes due to financial crisis. There were five items in this measure: absenteeism (reverse coded), concentration on the job, performance in teamwork, and overall performance and efficiency. Respondents rated each item on a 5-point Likert scale ranging from 1 (decreased considerably) to 5 (increased considerably) with a mid-point of 3 (not changed). The higher the score on this scale, the more positive the performance change. The internal consistency of this 5-item scale was 0.90 (Cronbach's alpha).

Respondent demographics. The last section in the questionnaire was dedicated to the questions pertaining to respondents' demographic characteristics (age, gender, education level, position title, number of years worked in the organization), and organizational characteristics (age, size, sector / industry, ownership status).

Results

First, we would like to present the results pertaining to the practices in coping with the financial crisis. As explained in the measurement section, the first part of the questionnaire included five practices concerning changes in production, marketing, and financial (PMF) strategies. The second part included ten items tapping changes in the human resource management (HRM) strategies and practices. Table 1 presents descriptive statistics for all study variables including the changes in HRM and PMF strategies and practices. Table 2 presents the areas in which changes occurred. Among the most common HRM-related cost-cutting were lowering the rate of salary increase, laying-off employees, recruiting no new employees, reducing training and development expenses. The most common PMF-related cost-cutting included reduction in general expenses and waste, and change in sales and marketing strategies.

Insert Tables 1 & 2 about here

As stated in Hypothesis 1, we expected that organizations with transactional social contracts would focus less on cost-cutting in PMF areas compared to cost-cutting in HRM areas. We tested this hypothesis by comparing correlation of transactional social contract with PMF and HRM cost-cutting strategies. As expected, the negative correlation between transactional contracts and PMF cost-cutting strategies ($r = -.34$, $p < .01$) was significantly lower than that between transactional contracts and HRM cost-cutting strategies ($r = .07$, $p > .05$). In Hypothesis 2, we expected a reverse relationship between cost-cutting strategies and relational contracts. Indeed, we found that organizations with relational contracts focused less on HRM cost-cutting strategies ($r = -.31$, $p < .001$), compared to PMF cost-cutting strategies ($r = .24$, $p < .05$). In both cases, comparison of correlations with Fisher's Z test yielded significant differences ($Z = 2.29$; $p < .05$; $Z = 3.37$; $p < .01$, respectively).

The next set of hypotheses tested the moderating effect of social contracts between cost-cutting strategies and perceived justice. For each test of moderation, procedure was the same (Cohen & Cohen, 1975). In step one, the criterion (i.e., cost-cutting strategy) was regressed on the predictor (i.e., perceived justice). In step two, the moderator (i.e., type of social contract) was regressed on the predictor. Finally, in the third step, the cross-product of the criterion and moderator was added to the main effects that were entered in the first two steps. Evidence of moderation existed when the interaction term accounted for significant incremental variance in the dependent variable. This was signified by the values of the incremental F-statistics. Hypothesis 3 predicted that employees in organizations with high transactional contracts would perceive cost-cutting in PMF areas as less just, compared to those in low transactional contracts. Moderated multiple regression analysis (MMR) partially

confirmed this hypothesis. As seen in Table 3, the interaction term resulted in a significant increment in procedural justice, but not in distributive justice. That is, high PFM cost-cutting reduces procedural justice in organizations with high compared to low transactional social contracts (Figure 2, solid line).

Insert Table 3 & Figure 2 about here

Hypothesis 4 predicted that employees in organizations with high relational contracts would perceive cost-cutting in HRM areas as less just, compared to those in low relational contracts. MMR findings also partially confirmed this hypothesis (Table 4). The moderating effect of relational contracts was significant in predicting distributive, but not procedural justice. High HRM cost-cutting reduces distributive justice in organizations with high compared to low relational social contracts (Figure 3, solid line).

Insert Table 4 & Figure 3 about here

Hypotheses 5 and 6 were tested through structural equation modeling. As seen in Figure 1, the model was developed such that organizational commitment was predicted by procedural justice, psychological well-being was predicted by distributive justice, and performance change, in turn, was predicted jointly by both organizational commitment and psychological well-being. *AMOS* (Arbuckle, 1999; Version 4.01) was used as the structural equation modeling program. Results showed that our data fit well to the proposed model. χ^2 (2) was 0.198 ($p = 0.91$), χ^2 / df ratio was 0.09, and RMSR was 0.005. GFI was 0.99, AGFI was 0.97, NFI was 0.98, IFI was 0.98, and CFI was 0.98.

Confirming Hypothesis 5, procedural justice predicted organizational commitment ($\beta = .35$, $p < .01$), whereas distributive justice predicted psychological well-being ($\beta = .25$, $p <$

.05). The path coefficients from procedural justice to psychological well-being and from distributive justice to organizational commitment were not significant ($\beta = .07, p > .05$; $\beta = .18, p > .05$, respectively). Hypothesis 6 stated that performance change would be positively influenced by organizational commitment and psychological well-being. This hypothesis was partially confirmed as performance change was predicted by organizational commitment ($\beta = .66, p < .001$), but not by psychological well-being ($\beta = .04, p > .05$).

Discussion

The primary purpose of the study was to investigate the role of type of social contracts on employees' perception of justice of workplace practices designed to cope with the financial crisis. Findings showed that the majority of organizations engaged in changes in production, marketing, financial (PMF), and/or human resource management (HRM) strategies to cope with the deep financial crisis that Turkey has been experiencing for the last two years. Among the most common HRM-related cost-cutting strategies included downsizing, reduction of salaries, benefits and training expenses, whereas most common PMF changes were cost-reduction in areas unrelated to human resource investments and practices, and changes in sales and production strategies.

The first research question that we tackled was related to whether or not the type of social contracts impacted how organizations responded to financial crisis. It was found that as social contract prevailing in an organization tended to be more transactional, there was less focus on cost-cutting strategies in production, marketing or financial practices, compared to those in human resource management practices. This was in line with our predictions. Organizations with transactional social contracts did not compromise the organizational bottom-line by changing production, marketing and financial strategies and practices. On the other hand, the non-significant relationship between transactional contracts and HRM cost-cutting may imply that at least some organizations coped with financial crisis by cost-cutting

in HRM areas, including downsizing, reducing training and development expenses and other benefits. For other transactional organizations, cost-cutting in HRM areas might not be necessary, because there were no changes in production, marketing and financial strategies of the organization.

The second hypothesis predicted that organizations with relational contracts would focus less on cost-cutting in HRM areas, compared to that in PMF areas. This was also confirmed. In fact, we found that as social contracts prevailing in an organization were more relational, there were no or very little cost-cutting in human resource management areas, while there were more cost-cutting in production, marketing and financial areas. Organizations relying on relational exchange preferred to cope with the financial crisis by reducing their production and/or changing their marketing and finance strategies. On the other hand, they protected their employees by not downsizing or reducing salaries, benefits, training expenses, and so on. Indeed, Japanese firms, which rely on relational rather than transactional contracts, were found to proscribe layoffs even in difficult economic times (e.g., Lincoln & Kalleberg, 1990; Ornatowski, 1998). Stroh and Reilly (1997) found that organizations with relational contracts positively adjusted their HRM practices (i.e., increased the salaries and benefits) in times of turbulence (e.g., merger, downsizing) to convey the message that the organization was not willing to abandon its long-term commitment to their employees. This was the first step toward restoring the trust that was needed to maintain long-term relational contracts between organizations and their employees (Rousseau & Parks, 1993). By contrast, in organizations with transactional contracts, employees were never led to expect stability. Therefore, adjustment of HRM practices during periods of turbulence was not necessary, since an implied contract regarding job security had not been breached.

The second research question was pertinent to the moderating effect of the type of social contracts on justice perception of employees. In line with our hypotheses, cost-cutting

in production, marketing and finance yielded lower *procedural* justice perception in organization with high, compared to low transactional contracts. In contrast, cost-cutting in human resource management practices yielded lower *distributive* justice perception in organizations with high, compared to low relational contracts. As discussed above, employees in organizations with transactional contracts expected that their organization did not cut costs in PMF areas, whereas those in relational contracts expected that their organization did not compromise practices in HRM areas. Moderated multiple regression analyses revealed that when organizational interventions were not congruent with employee expectations, the result is low justice perception.

It was interesting to note that, violation of transactional contracts negatively influenced procedural justice, whereas violation of relational contracts negatively influenced distributive justice. In the present study, violation of transactional contracts implied cost-cutting in PMF areas and violation of relational contracts implied cost-cutting in HRM areas. It is possible that when there were changes in the production, marketing and financial strategies employees felt that this would alter the nature of their jobs and role behaviors. This is an unexpected and unwelcome situation, because the terms of exchange (e.g., job descriptions, role behaviors, contingent rewards) are usually very specifically outlined and honored in organizations with transactional contracts. When such specifications are altered, employees tend to lose trust to the system and perceive less procedural justice (Borckner, 2002). This is especially true when they do not receive sufficient information about changes or participate in decision-making processes, which is typically the case in times of crisis (cf. Sagie & Koslowsky, 2000).

Breach of relational contracts reduced the perception of distributive justice. Employees in organizations with relational contracts expected that their organization protected them, especially in times of crisis. When there was cost-cutting in HRM areas,

employees primarily questioned the criteria upon which decisions were based (e.g., performance, seniority, need, tenure, age). It is likely that no matter what the criteria were, employees perceived it unfair that their organization compromised some of its employees instead of protecting them. In other words, in organizations with relational contracts, HRM cost-cutting is perceived as unfair no matter what criteria are used in the decision-making process. This finding is in line with previous research showing that when there is scarcity of resources, perception of distributive justice is evident if the criteria for *resource-reduction* are based on either equality or need (e.g., Berman, Murphy-Berman, & Singh, 1985). This is especially the case in collectivistic countries like Turkey (Murphy-Berman, Berman, Singh, Pachauri, & Kumar, 1984).

The outcomes of perceived justice in our study were organizational commitment, psychological well-being, and performance change. Confirming our hypothesis, perception of distributive justice increased psychological well-being, whereas perception of procedural justice increased organizational commitment. It seems that employee well-being was more directly related to the question of whether or not their organization would treat them fairly by allowing them to keep their job, salary, or benefits (distributive justice), rather than treating them with respect and dignity (procedural justice). On the other hand, the latter was more directly related to employees' attitudes toward the organization (i.e., commitment).

Finally, employees with high organizational commitment reported improvement in their job performance following the period of adjustment to the financial crisis. Performance change was not predicted by employees' psychological well-being. This finding may imply that employees increase their performance simply to protect their job or position in the organization. However, it also suggests that those with low commitment decrease their performance despite the obvious threat of losing their jobs and / or part of their salaries and benefits.

Conclusions and Implications

The findings of this study have significant scientific and practical implications. This is one of the few studies relating crisis management to social contracts. Although some know-how existed with respect to the economic side of organizational response to financial crisis, there was paucity of knowledge in the area of human resource management practices. Overall, the findings supported our model that when organizations do not cope with financial crisis in ways that are not congruent with the type of social contracts, this results in perception of injustice, and, in return, decreases commitment, psychological well-being and job performance. Our findings demonstrated that when relational social contracts prevailed, cost-cutting in human resource management practices was not the preferred way of coping with the financial crisis. Instead, such organizations adjusted their production, marketing and financial activities in response to financial crisis. On the other hand, organizations with transactional contracts did not compromise their bottom-line by changing strategies and practices in key business activities (i.e., PMF). Some transactional organizations adjusted their HRM strategies and practices in response to the financial crisis, while others did not.

Perhaps the most important theoretical contribution of this study is to demonstrate that social contracts between the organization and the employees is critical in predicting how organizational practices are perceived and reacted to. This study highlights the role of social contracts as a moderator between organizational strategies and justice perception. Without the knowledge of the type of social contracts, it is not possible to judge whether or not a particular cost-cutting strategy is fair in the eyes of employees. Note that the correlations of HRM- and PMF-related cost-cutting strategies with perception of justice were either non-significant or small in magnitude (Table 2). This concurs that there is a necessity to examine the impact of organizational strategies and practices on justice perception through the lenses of social contracts. These findings can be discussed in light of the ‘congruence thesis’, which

asserts that when management practices are inconsistent with deeply held values and expectations (i.e., social contracts), employees are likely to feel dissatisfied, distracted, uncomfortable, confused, and uncommitted; this will result in lowered ability and willingness to perform well (House, Wright, Aditya, 1997; Newman & Nollen, 1996, p.755).

The second contribution of the present study is to highlight the importance of paternalism as a form of relational contract. In countries like Turkey, paternalism is a salient cultural orientation in the society and its institutions. Paternalism has been portrayed highly negatively in the Western literature where it has been equated with dictatorship (e.g., Northouse, 1997), worker exploitation and manipulation (e.g., Goodell, 1985; Jackman, 1994). On the other hand, paternalism has positive connotations and yield positive outcomes in Pacific Asian cultures (Dorfman & Howell, 1988; Kim, 1994) such as China, Japan, Korea, and India, the Middle-East and Latin America (Ali, 1993; Aycan, et al., 2000; Ayman & Chemers, 1991; Osland, Franco, & Osland, 1999). Aycan (in press) argues that the controversy surrounding paternalism lies in the socio-cultural context in which it is exercised. It is beyond the scope of this paper to fully discuss the construct and its development, but suffice to say that in collectivistic and high power distant cultures like Turkey, paternalism is associated with positive outcomes as has been shown in the present study. Nowadays, Western organizations, too, place emphasis on relational social contracts to increase worker commitment and teamwork. In fact, they consider what they call ‘new paternalism’ to humanize and remoralize workplace, and establish flexible systems as an alternative to rigid and contractual relationships between employers and workers (Padavic & Earnest, 1994).

The most important practical implication of this study is to suggest to the organizations to place more emphasis than ever to social contracts, especially when they are undergoing difficult times. As put forth by the contingency theories of management (e.g., Child, 1981), there are no absolute right or wrong answers to organizational problems. What

is right is what is fitting to the contingencies of the organization. This study demonstrated that social contracts are among the important contingencies that an organization must take into consideration in dealing with financial crisis. Following downsizing or cost-cutting, employees remain committed and perform well if they perceive that their organization keep its promise, no matter implicitly it may be stated.

This research is not free from limitations. First of all, the sample represents a particular cultural context. Findings of the study should be replicated in other countries with larger samples. Second, data were collected from a single source: organizational practices were reported by the respondents and could not be validated by the organizations to keep their identity anonymous. This may increase the common-method bias resulting from percept-percept method. Crampton and Wagner (1994) examined nearly 39 thousand correlations in a meta-analysis to find no consistent evidence of the influence of percept-percept artifacts on study results. If our findings were seriously affected by common-method bias or percept-percept artifact, we should have obtained much higher correlations among the key variables. Still, future research should put every effort to obtain objective data on organizational practices and changes. Finally, paternalism may not represent relational contracts in other cultural contexts. Future studies should replace it with relevant constructs while operationalizing relational exchange.

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Table 1. Percentage of respondents reporting changes in HRM and PMF areas.

	Percentage of respondent reported change
<i>Cost-cutting in HRM-related areas</i>	
Lowering the rate of increase in salaries	64
Laying-off	61
Recruiting no new employees	59
Reducing training and development expenses	51
Increasing work-load	47
Reducing benefits & allowances	45
Leave of absence	23
Reducing the salaries	19
Early retirement	14
Delaying salary payments	12
<i>Cost-cutting in PMF-related areas</i>	
Reducing the extra expenses and waste	74
Changing the sales and marketing strategies	47
Postponing the external payments	18
Reducing production and business volume	13
Temporarily terminating operations	2

Note. HRM: Human resource management; PMF: Production, marketing, finance

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Table 2. Mean, SD, and correlations among key study variables.

	<u>M</u>	<u>SD</u>	1	2	3	4	5	6	7	8	9
1. HRM-related cost-cutting	4.21 ^a	.89	--								
2. PMF-related cost-cutting	2.09 ^b	.82	.13	--							
3. Procedural Justice	2.77 ^c	.78	-.12	.06	(.89)						
4. Distributive Justice	0.12 ^d	.80	-.21*	-.07	.35***	(.93)					
5. Commitment	3.20 ^c	.90	-.41***	-.04	.42***	.31***	(.89)				
6. Performance Improvement	2.91 ^c	.93	-.37***	-.11	.30**	.25*	.67***	(.90)			
7. Psychological Well-Being	3.80 ^c	.66	-.33***	-.10	.16	.27**	.40***	.34***	(.94)		
8. Transactional Contact	2.27 ^c	.51	.07	-.34**	-.24*	.05	-.31**	-.26**	-.18	(.82)	
9. Relational Contract	2.85 ^c	.61	-.31***	.24*	.48***	.23*	.46***	.30**	.29**	-.38***	(.89)

Notes: a. Score ranging between 0-10; b. Score ranging between 0-5; c. Score ranging between 1-5; d. Score ranging between -2 and 2; e.

Score ranging between 1-6

Numbers in parentheses are reliability estimates of the measures.

* $p < .05$, ** $p < .01$; *** $p < .001$

Table 3. Moderated multiple regression analysis testing the moderating effect of transactional social contracts on perceived justice.

Criterion: Distributive Justice	β	R^2	R^2 change	F	F change
1. PMF cost-cutting	-.17	.005		.46	
2. Transactional social contract	.03	.005	.000	.27	.76
3. PMF cost-cutting x transactional social contract	.12	.006	.001	.20	.78
Criterion: Procedural Justice					
1. PMF cost-cutting	.64	.003		.339	
2. Transactional social contract	.17 ^t	.058	.054	3.021	5.69*
3. PMF cost-cutting x transactional social contract	-.76*	.092	.034	3.306	3.71*

Note: ^t $p < .10$; * $p < .05$, ** $p < .01$; *** $p < .001$

Table 4. Moderated multiple regression analysis testing the moderating effect of relational social contracts on perceived justice.

Criterion: Distributive Justice	β	R^2	R^2 change	F	F change
1. HRM cost-cutting	.46*	.045		4.664	
2. Relational social contract	.61**	.074	.029	3.947	3.131
3. HRM cost-cutting x relational social contract	-.72*	.131	.058	4.943	6.496*
Criterion: Procedural Justice					
1. HRM cost-cutting	.76	.015		1.556	
2. Relational social contract	.72*	.227	.212	14.528	27.093***
3. HRM cost-cutting x relational social contract	-.71	.245	.018	10.613	2.38

Note: * $p < .05$, ** $p < .01$; *** $p < .001$

Figure Captions.

Figure 1. The conceptual model of the study.

Figure 2. Moderating effect of transactional contracts on the relationship between PMF cost-cutting and procedural justice perception.

Figure 3. Moderating effect of relational contracts on the relationship between HRM cost-cutting and distributive justice perception.

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