Constructs of Perceived Fairness and Impact on Performance: An International and Local Context

Submitted by
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In partial fulfillment of the requirements for the degree of
Doctor of Philosophy in Management
(2018)
Author’s Declaration

I, Amna Niazi, declare that the work presented in this dissertation has been carried out in accordance with the guidelines and regulations of National University of Computer and Emerging Sciences. The work is original except where indicated by special references in the text and no part of the dissertation has been submitted for any other degree. The dissertation has not been presented to any other University for examination.

Dated: June, 2018.

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Signature of Author
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I, Amna Niazi, take full responsibility of the research work conducted during the PhD Thesis titled Constructs of Perceived Fairness and Impact on Performance: An International and Local Context. I solemnly declare that the research work presented in the thesis has been carried out solely by me with no significant help from any other person; however, small help wherever taken is duly acknowledged. I confirm that no portion of my thesis has been plagiarized and any material used in the Thesis from other sources is properly referenced. Furthermore, the work presented in the thesis is my own original work and I have positively cited the related work of the other researchers by clearly differentiating my work from their relevant work.

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Signature of Author
Dedicated To My Family
Abstract

Fairness is a complex concept and has been studied extensively in sociology and philosophy. The perceptual difference among people with regards to fairness, justice, and trust makes it an interesting concept to explore. The present study analyses the impact of perceived trust in three different scenarios. In the first part, the impact of trust within the members of a society on the performance of that country is observed. Labor force trends, per capita income, human capital value and political institutions were analyzed as part of the theoretical framework. In the second part, the mediating role of organizational trust between organizational justice and organizational performance was analyzed. The third part brings the attention to the dimensions of justice and how they influence trust among employees. For the first part of the study, a sample of 64 countries was taken and cross country analysis was applied. These countries were further separated into developing and developed countries to observe the impact of trust on performance. To examine the change in the level of trust on the performance of a country a non-linear term of trust was included in the regression model. In the second part of the study, Structural equation modeling (SEM) was used to analyze the direct and indirect effect of organizational justice on organizational performance. Structured questionnaire was used as the instrument to collect data. In the third part of the study PLS-SEM was applied to test the relationship between the dimensions of justice and its impact on the organizational trust. The results from the first part suggest a strong positive correlation between social trust and economic growth of countries. This association was much stronger for developing countries than developed countries. The findings specify that an increased level of trust beyond a certain level within developed economies does not lead to economic and financial benefits. Whereas, developing countries can prosper and increase performance in lieu of increased level of social trust. Findings from the second part indicate that trust plays a significant role in justice and organizational performance relationship. The results drawn from the third part signify that employees in an organization give value to procedures and regulations than the rewards during decision making or reward distributing process. Trust level of the employees increases if they feel that rules are implemented and practiced in the organization. This puts pressure on the organizations to increase transparency in the procedures. This study will have implications for the managers of multinationals as well as local companies in a country, to strategize the decisions related to trust.
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Lahore, Pakistan
June, 2018

Amna Niazi
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Publications

Publications from the Thesis


Other Publications


## List of Abbreviations

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<th>Abbreviation</th>
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<tbody>
<tr>
<td>PLS</td>
<td>Partial Least Square.</td>
</tr>
<tr>
<td>IFI</td>
<td>Incremental Fit Index.</td>
</tr>
<tr>
<td>AVE</td>
<td>Average Variance Extracted.</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer.</td>
</tr>
<tr>
<td>CFA</td>
<td>Confirmatory Factor Analysis.</td>
</tr>
<tr>
<td>CFI</td>
<td>Comparative Fit Index.</td>
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<tr>
<td>GFI</td>
<td>Goodness of Fit Index.</td>
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<tr>
<td>WVS</td>
<td>World Values Survey.</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment.</td>
</tr>
<tr>
<td>RMSEA</td>
<td>Root Mean Square Error of Approximation.</td>
</tr>
<tr>
<td>SEM</td>
<td>Structural Equation Modeling.</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for the Social Sciences.</td>
</tr>
<tr>
<td>OLS</td>
<td>Ordinary Least Squares.</td>
</tr>
<tr>
<td>RGDPPC</td>
<td>Real GDP Per Capita.</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product.</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology.</td>
</tr>
<tr>
<td>RCT</td>
<td>Referent Cognitions Theory.</td>
</tr>
<tr>
<td>AMOS</td>
<td>Analysis of Moment Structures.</td>
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<td>PCA</td>
<td>Principal Component Analysis.</td>
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Chapter 1

Introduction

The present study is composed by bringing together three empirical studies. The focus of the study is on the impact of trust on performance. This has been measured at macro level by keeping in view the impact of change in the trust level on the performance of the countries. In the second part of the study, the same analogy is applied at micro level where trust is considered as a mediating variable and justice to be the independent variable. The effect of justice on trust and organizational performance is then tested. In the third part of the study, justice is divided into different dimensions and then its relationship is measured with trust and organizational performance. This served dual purpose by providing guidelines for practitioners and brings in additional dimensions in the relevant management literature by keeping in view the international and local perspective. Although three different perspectives are taken into consideration however, the focus of all the three studies was to know and test the relationship of trust and performance.

The perception of fairness among employees of an organization is one of the most important motivators and at the same time a highly sensitive factor in an employer-employee relationship. Employees’ perception of fair treatment from the organization is referred to as organizational justice. Cohen (1986) believed that justice is a vital ethical standard and it is the basis to assess social behavior and practices in organizations. The concept of fairness is manifested when employees believe that they were treated to the extent they deserve in the social interactions in a given situation (Byrne and Cropanzano 2001). Cropanzano and Greenberg (1997) focused on employee’s reaction to situations where injustice prevails and concluded that injustice or perception of injustice led to negative outcomes by the workers (Zapata, Carton, and Liu 2016). Literature suggests three dimensions of justice or fair treatment i.e., distributive, procedural and interactional (Thibaut and Walker 1975; Bies and Moag 1986; Cohen-Charash and Spector 2001). Fairness in the distribution of rewards is called distributive justice (Greenberg 1990a). Fairness in procedures through which the rewards are received is termed as procedural justice (Saunders and Thornhill 2003). The interaction with the employees during the reward distribution is expressed as interactional justice (Bies and Moag 1986). Employees may reduce their level of performance and may not perform to their optimal capacity when they may perceive the absence of justice or fair treatment. In this context, retention of productive employees and
maintaining their performance to an optimal level has become one of the greatest challenges in today’s competitive market place. The perception of justice and fairness helps in developing trust among employees which has become vital to study (Deming 1994; Kramer and Lewicki 2010). Not only for organizations, but looking at this perspective from macro level, trust and justice are important facets for a country to achieve economic growth.

Previous literature on organizational justice has focused on workers perception of fairness as a surrogate of organizational justice (Cohen-Charash and Spector 2001; Greenberg and Colquitt 2005; Harvey and Haines 2005). Hendrix et al. (1998) state that perception of fairness formed by employees, is dependent on the rules and regulations that the organizations follow. Research also suggests that organizational justice is a framework that explains the employees trust level on the organization (Hoy and Tarter 2004). The constructs of organizational justice are considered to be rooted in the Equity Theory by Adams (1965). While, this theory explains general justice rather than specifically focused on organizational justice, it is largely referred and implied in the research focusing on organizational context. Equity theory states two possible reactions of people when they experience inequity. When people feel they are mistreated they change their inputs or outputs to gain the balance.

This concept gained much attention in the workplace organizations with the contribution of Byrne and Cropanzano (2001). Several outcomes of organizational justice such as satisfaction with job or task, turnover intention, organizational commitment and organizational citizenship behavior have been discussed in past literature (Cohen-Charash and Spector 2001; Colquitt 2001a). Trust and justice among employees are considered to be the core constructs for the success of any organization (Kramer 1999; Cohen and Spector 2001; Colquitt et al. 2001; Dirks and Ferrin 2001). Trust is referred as a standing perception of confidence or hopefulness of employee to get fair treatment from an organization in any future social transaction. From the societal point of view, it is considered to be an expectation of fair treatment, established on collective norms and standards in a society as whole (Fukuyama 1995). Trust is also referred to as the confidence that both parties would avoid indulging in any harmful act and would consider the interest of the other (Delhey and Newton 2005). Arrow (1972) stated that the given level of trust in a society plays an imperative role in the functioning of any economic system. He further argues that the process of exchange is greatly facilitated by the virtue of trust. Dirks and Ferrin (2001) empirically proved that the presence of the perception of trust in an organization can gain competitive advantage for the firm.

In this context, the role of trust in facilitating the economic transactions and consequently increasing the prospective of business and economic growth in a country is vital both at macro and micro level of an economy. In the past years, the importance of trust for the economic growth has gained the interest of economists and sociologists. For instance, Fukuyama (1995) explained this relationship with an in-depth analysis from the sociological perspective. Prior to the work of Fukuyama (1995), this concept gained attention throughout 20th century when classical researchers believed that all social transactions have an element of trust in them and the reasons of economic backwardness can be traced to lack of mutual trust among the members in an economy (Arrow 1972). According to
Knack (1999) and Fukuyama (1995), the building of relationships and trust has a crucial role to play in economic success. Putnam (1993) concluded a positive relationship between trust and economic health of countries. Knack and Keefer (1997) presented a strong association between trust level and economic progress by using empirical data. A lower level of trust in a society is linked with a number of negative outcomes. For instance, when trust level decreases it requires additional rules and regulations to facilitate transitions. This means an increased cost of transactions and consequently an overall burden on the economy (Fukuyama 1995; Putnam 2000; Schweitzer, Hershey, and Bradlow 2006). Lack of trust also leads to Principal-Agent problems which arise with the misconceptions between parties in the absence of trust. While researchers agree that lack of trust depresses the pace of economic growth, it is yet a challenge to find ways of increasing the level of trust which is embedded in complex social system of a nation. It is also a known fact that level of trust varies across countries. Zaheer and Zaheer (2006) explained the variations in institutional support and cultural assistance with the level of trust among various nations. Trust level within a society may also vary among different groups. For instance, trust level may change with the age groups, education level, income level, social status and geographical conditions (Helliwell and Putnam 2007).

A better level of trust in a society facilitates the social and economic transactions between the members in several ways (Arrow 1974; Coleman 1988; Putnam 1993). For instance, at the macro level, it reduces the need of regulatory framework for the purpose of safeguarding the parties with a fear of breach. At micro level, it decreases the cost of transaction (Whiteley 2000) for individual parties by reducing the documentation and time required to engage and complete a transaction. Hence, it is plausible to say that a country with a higher level of interpersonal trust can be more favorable for the economic activity i.e., optimistic economic output, growth and better candidacy to receive Foreign Direct Investment (FDI) (Bradach and Eccles 1989; Hill 1990; La Porta et al. 1997; Aharoni, Tihanyi, and Connelly 2011). On the other hand, economic activity becomes costly and more time consuming in case of lower level of interpersonal trust in a society (Arrow 1974; Ouchi 1981; Parkhe 1998). Thus, it is safe to hypothesize that repetition of justice or fair treatments can gradually build up the level of trust among employees and economies. It goes without saying that that building trust level may take several consecutive fair treatments while reducing trust level may become evident with only few unfair treatments or perceptions.

Social exchange theory explains that parties give weight to both tangible and intangible gains to develop a balance for the social transaction (Homans 1958; Adams 1963; Blau 1964; Jensen and Meckling 1994). This research aims to apply Fukuyama’s (1995) theory of trust, and Homans’ (1958) theory of social exchange, to define some of the finer delineations of perceived justice of employees and the resultant performance consequences for the company. A low level of trust, on the other hand, can increase the transaction cost by demanding additional arrangements to secure the interests of members in an exchange process (Fukuyama 1995). Thus, mapping Fukuyama’s approach with the social exchange theory may imply that level of trust not only facilitate the social transaction but also add (intangible) value on both sides of the equation. On similar lines past studies have explained the positive impact of higher trust level on the employer-employee relations (Earley 1986; Deluga 1995; Podsakoff, Mackenzie, and Bommer 1996; Farh et al.
1.1 Part 1: Trust; A Significant Factor in Achieving Economic Performance

The strength of relationship between justice and performance of employees remains debatable without considering trust level and combinations of tangible and intangible gains involved. The changes in level of trust of employees and its effect on performance consequences is another area that mainly remained ambiguous (Hoy and Tarter 2004). Such findings can be helpful for a better use and understanding of this causation by the practitioners and researchers interested in employer-employee relationship and its consequences for the company. This study focuses on organizational justice, dimensions of organizational justice, organizational trust and organizational performance.

This study focuses on the importance of trust and its impact on changing the performance level. Based on the literature (Algan and Cahuc 2013; Berggren, Elinder, and Jordahl 2007; Beugelsdijk, Groot, and Schaik 2004) this study examines the largely overlooked impact of change in the trust level on the performance of the countries. This leads to the question that can the same can be applied to organizations as well?. To explore the answer the role of trust at micro level was tested in organizations where justice was also considered to play an important and integral part. This led to the investigation that justice as a one-dimensional construct may not show the complete impact on organizational trust and performance. Hence, a third study was conducted including the different dimensions of justice and thus the impact of these dimensions on organizational trust was tested. This helped to provide an in-depth knowledge of these dimensions. These studies are presented as three parts providing detailed descriptions of relevant literature that help to formulate hypothesis leading to proposed models. Overview of the three researches is explained in the following parts.

1.1 Part 1: Trust; A Significant Factor in Achieving Economic Performance

The first part addresses trust at macro level by empirically linking the important social value of trust with the economic health and potential growth of a country. In this empirical study trust along with variables such as income per capita, human capital, investment, labor force and political institutions in the model were included to check the impact of trust on economic performance. According to Westlund and Adam (2010) interpersonal trust is the trust that is generated after many spontaneous interactions. It is also one of the main reasons why countries have different level of economic development. Interpersonal trust is an important component for economic progress (Wilkins and Ouchi 1983; Shapiro 1990). Literature suggests that interpersonal trust is important for coordination and control both at institutional level and at interpersonal level of the employees (Zucker 1986; Pennings and Woiceshyn 1987). Larson (1992) implied that if countries want to achieve economic growth they should work on building trust among its people. Researchers have also drawn attention to the fact that trust makes it easier to achieve efficiency when parties coordinate with each other in a complex environment (Chami and Fullenkamp 2002). Bazerman (1994) highlight the significance of trust in negotiation and performance appraisal (Cummings 1983). From sociological perspective, the importance
of trust for economies has been studied in-depth by Fukuyama (1995). Prior to the work of Fukuyama (1995), this concept gained attention throughout 20th century when classical researchers believed that all social transactions have an element of trust in them and the reasons of economic backwardness can be traced to lack of mutual trust among the members in an economy (Arrow 1972). Cook and Wall (1980) defines trust as the confidence that the other person would not harm in a situation where risk is involved. It works as a bond in which potential risk is reduced and business transactions are not hindered (Corritore, Kracher, and Wiedenbeck 2003). Literature distinguishes between affect-based trust and cognition-based trust. McAllister (1995) defines affect-based trust as the confidence embedded as a result of emotional attachment with the party. On the contrary, cognition-based trust is the trust based on past records, professionalism and reliability of a person which they earn with the passage of time.

While studying the concept of trust it is also important to understand the difference between generalized trust and particularized trust (Banfield 1958). Particularized trust arises when people have continuous interaction among each other. Generalized trust is the trust embedded in the people though norms and culture that they share. Hence, generalized trust is also considered to be as interpersonal trust among the members of a society. Rotter (1967) was among the first ones to define interpersonal trust. He defines interpersonal trust as an expectation that the other person would do or behave according to what is said verbally or in written. Continuous transactions and exchange in people either verbally or in a contract builds a relationship among the parties. Researchers argue that trust building and interpersonal trust have a critical role in the economic growth of any country (Fukuyama 1995; Knack 1999). Putman (1993) was among the first ones to endorse a positive link between interpersonal trust and economic progress of a country. This relationship was further probed by Knack and Keefer (1997). They used empirical data to explain that trust level and economic growth are positively linked. Additional rules, regulations and contracts are required to facilitate business transactions. In order to safeguard the parties involved in the business transactions rules are implemented which increases the cost of transactions and leaves a burden on the economy. In addition to these, the Principal-Agent problems become more evident with decrease in the trust level among the parties.

Sapienza, Toldra-Simats, and Zingales (2013) stated that trust level and trustworthiness are highly correlated. From this it may be concluded that dishonest behavior is less expected in an economy where trust level is high. In such situation, the cost of transaction may decrease due to a comparatively smaller investment would be needed to protect the parties. Even the contracts that take place between parties do not need to cover all the aspects (La Porta et al. 1997). A country with higher level of trust becomes attractive for the foreign direct investors (Kukharskyy and Pfüger 2010; Nielsen and Nielsen 2011). Since, foreign investors give importance to the fact that less money would be needed to secure the investment also long term financing is possible in countries where trust level is high.

High trust level is also politically favorable in the sense that such economies are able to decrease the cost of policing and safeguarding the agreements. Wicks and Berman (2004) endorse that costly governance mechanisms are applied in those countries where cultural and institutional support for trust is weak (Yamagishi, Cook, and Watabe 1998). The
phenomenon of trust becomes more complicated when the trust level and its distribution among different parts of society changes across countries. Zaheer and Zaheer (2006) describe how institutional and cultural determinants vary as the level of trust changes across borders. However, Helliwell and Putnam (2007) stated that trust level changes with education level, age groups, income level, social status and geographical situation.

Putman (2000) implies that although trust plays a major role in economic growth of a country, there are other factors that need attention in measuring economic progress. Literature proves that economic health of a country depends on many factors. Algan and Cahuc (2013) link the economic growth of a country with the level of income per capita. Similarly, researchers (Lucas 1988; Romer 1990; Mankiw, Romer, and Weil 1992; Aghion and Howitt 1998) emphasize the fact that human capital is an important component to increase economic health of a country. Other researchers argue that volume of investment is also a very important aspect to consider if a country wants to follow the path of success (Zak and Knack 2001). Economists and sociologist also point to other factors such as government spending (Barro 1991), accessibility of trained work force (Shahid 2014) political conditions and the role of these institutions as crucial factors to consider for economic growth (Tabellini 2010).

This part of the study have implications for the managers of multinationals as well as local companies in a country, to strategize the expansions and decisions of engaging in economic activity with a given level of economic trust. To obtain greater insight into the relationship between trust and economic performance of economy, variables such as income per capita, human capital, investment, labor force and political institutions in the model were included. The robustness of the relationship between trust and economic performance is increased by including a thorough analysis based on cross-country and panel dataset. The data used for analysis is taken from the World Values Survey (WVS) and Eurobarometer for the period 1980-2014. Cross country analysis was applied on a sample of 64 countries. Sample countries were divided into developed and developing countries, to observe the resultant effect of trust on economic performance. Also, to enlighten the monotonic relationship between trust and economic performance, a non-linear term of trust was added to the model which represented the effect of change in trust level on economic performance. The findings suggested a strong association between trust and economic performance. The empirical results also state that increasing the level of trust can greatly help developing countries to gain better economic performance. On the other hand, economic performance of developed countries may be curtailed as the level of trust further increases. This might be because of the reason that after gaining a higher level of trust the regulatory framework is reduced which gives margin to opportunists to exploit the gap. The findings of the present study would be helpful for the researchers, practitioners, foreign direct investors and policy makers. Trust is also important for developing countries to gain attention of foreign investors who would want to enter into a relational agreement, based on trust (Kukharskyy 2012). Not only investment but trust has a major role to play even when investors have to choose the entry mode in a country (Ring and Van de Ven 1992; Chiles and McMackin 1996). Since, in low trust culture economies, high uncertainty behavior leads to social and political instability which forms a basic entry barrier for foreign direct investment (Brouthers, Brouthers, and Nakos 1998). It is also useful for international business literature, as many researchers have focused on the fact that trust
and performance of the countries are positively linked. A different scenario is presented in this part and the countries are divided into developing and developed countries. Findings specify that even in developed countries trust till a certain level is useful and would provide negative outcomes in performance once the country crosses that limit.

The study contributes to the three significant discussions within justice and trust research. The first part of the study intends to theoretically add to the existing knowledge of trust. It adds value to the existing literature by focusing on not only trust but the change in the trust level and its impact on performance of the countries. On theoretical grounds, the present study contributes to earlier research on trust by developing a conceptual framework that includes several of the most significant factors found to influence trust. Variables such as income per capita, human capital, investment, labor force and political institutions were added to give the in-depth view of how change in trust level affects the performance of the countries.

1.2 Part 2: Role of Justice and Trust in Organizational Performance

The second part of study explains the impact of perception of justice on organizational performance when trust mediates the relationship. It also observes the direct and indirect effect of justice on organizational performance.

Justice is a strong feeling that creates a bond between employees and organizations (Lam, Schaubroeck, and Aryee 2002). Employees in organizations switch to other organizations if they encounter lack of fairness hence, retaining productive employees and maintaining their performance to an optimal level has become one of the major challenges for the organizations in today’s competitive market place. Companies employing high technology professionals face a great problem in managing turnover of the employees (Dockel, Basson, and Coetzee 2006; Cohen, Blake, and Goodman 2016). Employees who form a positive image of justice in their minds do not leave the organizations. A great responsibility lies on the shoulder of the managers to make their employees feel like an intellectual asset for the company and practice fairness in the organizations (Paré, Tremblay, and Lalonde 2000. Researchers (Argyris 1964; Zand 1972; Scott 1980; Gambetta 1988; Barney and Hansen 1994; Vineburgh 2010) tend to agree with the fact that organizational trust has several visible benefits for the firms including a positive impact on performance. Huff and Kelley (2003) suggest that a firm’s ability to remain competitive is dependent on its ability to build an environment based on trust. Organizational trust is considered to be a lubricant that increases the efficiency and effectiveness of an organization (Culbert and McDonough 1986). Organizations are not only a system that transforms the inputs into outputs but a system consisting of social ties and linkages (Blau 1964; Barber 1983). This implies that the importance of trust cannot be ignored in proper functioning of such a system. Organizational trust promotes customer satisfaction (Nyhan and Marlowe 1997; Backhaus and Tikoo 2004), employee attitude (Dirks and Ferrin 2001) and job satisfaction (Nyhan and Marlowe 1997). On the other hand, an environment of mistrust leads to several negative outcomes. Employees would not perform to their optimal capacity when
they may perceive the absence of justice or fair treatment in past (Folger and Konovsky 1989). Hence, perception of fairness holds a vital position in the formation of trust making it an important construct to study.

Employees judge organizational justice as employees’ perception of a fair treatment from the organization. The concept of fairness is evident when employees consider that they were treated as they deserve in past transactions. Byrne and Cropanzano (2001) suggest three dimensions of justice or fair treatment i.e., distributive, procedural and interactional. Distributive justice deals with the distribution of rewards to the employees. Interactional justice focuses on the interaction among employer and employee during the reward distribution process and procedural justice concentrate on the procedures, rules and policies through which rewards are being distributed. The purpose of this research was to test the relationship between organizational justice and organizational performance when organizational trust mediates the relationship.

Organizational justice and organizational trust are both important phenomenon to be studied from employee and employer perspective. Trust level gradually builds up when employees perceive repetition of justice or fair treatments within the organization. It is also expected that building trust level may take several consecutive fair treatments while reducing trust level may become evident with only few unfair treatments or negative perceptions. It is vital to assess employees’ perception of fairness as it helps in better understanding how to build employees trust level. Macneil (1985) states that trust level is dependent on the fairness exchange process. Researchers argue that exchange process include both economic exchange and social exchange (Konovsky and Pugh 1994; Settoon, Bennett, and Liden 1996). They further explain that economic exchanges are usually for a short term and are based on economic transactions while social exchanges are dependent on relational contracts that are not written down but only experienced. Relational contracts go beyond economic exchanges; they are long term in nature and they are based on psychological contracts. It is conceivable from above arguments that trust level may play a vital part in these transactions. Employees in corporations may not be comfortable to indulge in contracts if they do not observe trust in the relationship. Hence, trust is one of the important elements for an organization to streamline the transactions both economic and social.

Brown et al. (2015) point out that increasing the level of trust in management can increase employee’s performance. Trust also works as a binding force to keep employees together and enhance their output (Gilbert and Tang 1998). Applying the same analogy, it is hypothesized that trust plays a strong mediating role between perception of justice and organizational performance. For empirical analysis, data is collected from the software industry of Pakistan. Several factors make this industry a plausible choice as representative for the model. For instance, this industry has been one of the fastest growing industries in Pakistan since past one decade. Government has announced several steps including tax exemptions, to further boost the growth of this industry. Growth and competitiveness in this industry emphasize the effective utilization of human capital by optimizing their output. Being a service industry, employee’s creativity, ambitiousness and quality of output are important factors to gain success in this industry. Cross sectional data was collected to analyze the role of organizational trust in organizational justice and organizational performance relationship. Availability of data was one of the reasons why cross sectional
data was collected but this also creates an opportunity for future researchers to explore the study using longitudinal data.

This part explores both the direct impact of perception of organizational justice on performance of the organization and the mediating effect of organizational trust among justice and performance. Structural equation modeling (SEM) was used to test the model. Findings indicate that organizational justice plays a significant and important role in setting the performance level of the employees. Partial mediation was observed proving that organizational justice and organizational trust both play a positive and significant role in improving organizational performance. The results may help organizations in improving human resource strategies and training programs (Skogan, Van Craen, and Hennessy 2015). It may also assist them in implementing fair means of formal procedures and incorporation of appropriate system of resource allocation. Retention of employees may also be a benefit attached with practicing fair interpersonal treatments with the employees (Donovan and Munson 1998). This study extends previous research by investigating the direct and indirect influence of justice on organizational performance. The study also tests whether trust exerts a mediating effect between justice and performance. The research conducted in this part intends to work as building blocks to be used as foundations for similar future analysis.

Past literature provides evidence where researchers have probed and examined the relationship between fair treatment and performance outcome of employees (Cropanzano and Greenberg 1997; Colquitt et al. 2001). Analyzers (Konovsky and Pugh 1994; Moorman, Blakely, and Niehoff 1998) have also empirically supported that a strong relationship exists between organizational justice and employee outcomes. Current study investigates on similar lines by using the data of a developing Asian country like Pakistan and adding the mediating role of trust level in the relationship between organizational justice and employee’s performance. Unlike previous studies this model uses all three dimensions of justice i.e., distributive, procedural and interactional, rather than using organizational justice as a single factor. This makes it different from the work of Moorman, Blakely, and Niehoff (1998) and Masterson et al. (2000) who have considered two dimensions to measure organizational justice.

### 1.3 Part 3: Dimensions of Justice, Trust and Organizational Performance

Third and final part of the study explores the impact of different dimensions of justice on organizational performance when organizational trust mediates the relationship. This part roots deeper into the dimensions of justice and probe the impact of the three dimensions of justice on organizational trust. Fundamental preposition here is that three different dimensions may have different intensity of impact on the performance that may also depend on the cultural dimensions of sampled data. Justice is a concept that holds equal importance for economies and for corporate organizations. Employees tend to stay for a longer period of time in an organization where employees perceive justice. A large number of past researchers have explained that employee behavior, social exchange relationships and
performance is closely tied with the perception of justice in the organization (Masterson et al. 2000; Cropanzano, Prehar, and Chen 2002; Colquitt, Greenberg, and Zapata-Phelan 2005). Parker and Kohlmeyer (2005) inferred through a meta-analysis that organizational justice is a major studied topic in the field of organizational behavior. Beugre’ (1998) explains organizational justice as the perception of fairness and explores its impact on the behavior of employees in a firm. It is evident from the review of past literature that motivated employees add special value to the productivity of the organization (Martin 2005; Isfahani, Bahrami, and Torki 2013). Employees’ turnover increases when they perceive that injustice is prevailing in the organization. The relationship between employee and organization has gained much attention due to the fact that human resource is one of the strategic assets to gain competitive advantage (Ehrlich 1994; Cappelli 1999; Rousseau 1998).

Adams (1963, 1965) coined the word perception of fairness. He further elaborated that employees develop perception of fairness of outcome (distributive justice) which is based on equality. Researchers in the past agree that, employees would be less committed with the organization; if employers are not able to develop policies that are fair (Homans 1961; Leventhal 1976). The concept of distributive justice is embedded in the equity theory (Deutsch 1975; Crosby 1976; Folger 1984). Equity theory states that employees form perception of fairness by keeping in view the ratio between received incentives both tangible and intangible and the efforts that they put in to work. Employee performance increases as they receive fair treatment from the employer. When employees perceive that the organizations are not treating them fairly then they may form turnover intentions and set low work performance (Mikula 1986). Employees that observe injustice, if not able to quit, may face health problems and stress that may eventually hamper their work performance (Colquitt 2004). Research suggests three forms of justice namely distributive justice, procedural justice and interactional justice. Distributive justice is reflected when the employees perceive justice in distribution of outcome. Procedural justice is observed when the employees take into consideration the procedures through which the rewards are being distributed (Lind and Tyler 1988; Saunders and Thornhill 2003). Procedural justice holds great importance among employees (Konovsky 2000; Rubin and Weinberg 2014). It is implicit that, employees feel dissatisfied even if the final rewards are fair but procedures and policies were not. The third dimension of justice is interactional justice which deals with the perception that how employees were interacted and communicated during the promotion or reward distribution process (Bies and Moag 1986; Fischer et al. 2014). It included factors like respect, empathy, social sensitivity, and mannerism in which workers were treated during interactions (Mikula, Petrik, and Tanzer 1990). Past researchers explain (Pennings and Woiceshyn 1987; Mayer and Gavin 2005) that trust is an important component in maintaining a long lasting relationship among employer and employees. According to Bachmann (2001) trust is a solution to the problem of coordination between economic parties.

The issue of trust is equally important for small and large organizations (La Porta et al. 1996). Fukuyama (1995) explained that trust is vital for increasing the performance of the countries. Trust is defined as a state where one person relies on the other person and feels comfortable in being dependent on the decision of the other party (Rousseau et al. 1998; Robbins 2012). Positive expectations from the other party are a key facet of trust.
Trust has a component of risk in it, as one person is relying on the behavior of the other person and expects positive conduct in the future (Lewicki and Bunker 1995; McAllister 1995). Deutsch (1973) defines risk as the belief of one person to be vulnerable towards an uncertain situation. Organizational trust can be defined as the trust that prevails among the employees and the employers that work as a critical link among them. Aryee, Budhwar, and Chen (2002) suggest that trust is rooted in the social exchange theory. According to this phenomenon, people will treat others adequately in an expectation of return of good in the future. According to Blau (1964) trust is a voluntary positive action that an employee would offer to the organization. The employee may not be sure about the future outcomes from the organization but would expect a positive and favorable reply from the organization in time of need. Blau (1964) also narrates that trust is a confidence that develops with the passage of time. As a general rule it is plausible that as level of trust grows in people, the level of uncertainly decreases in a social setting.

Literature presents two dimensions of trust namely cognition-based trust and affect-based trust (Lewis and Weigert 1985). Cognition based trust is the trust that builds with the passage of time. Its formation is based on a person’s past performance, education level, training and judgment of a person is involved (McAllister 1995). Affect based trust is the trust that is perceived due to the judgment of others. It basically involves emotional ties among the two parties. There are various factors that count towards building trust level among the employees and justice is one of them is focused in this study.

According to Cohen-Charash and Spector (2001), organizational justice and organizational trust are positively correlated. Both perception of organizational justice and trust brings with them numerous direct and indirect benefits. Lewicki, Wiethoff, and Tomlinson (2005) consider organizational trust to be a consequence of organizational justice. Much research has been conducted on organizational justice and organizational trust (Folger and Konovsky 1989; Pillai, Schriesheim, and Williams 1999; Cropanzano, Prehar, and Chen 2002; Colquitt et al. 2012, Kernan and Hanges 2002; Thomas and Nagalingappa 2013). However, this study would add value to literature by exploring the relationship between justice, trust and performance keeping in view the context of eastern developing country like Pakistan. Banking sector of Pakistan was taken into account for the analysis of the proposed model.

Using SmartPLS, on 300 responses collected from the employees of banking industry, the impact of justice on the employee’s performance is analyzed. This part considers the impact of the three dimensions of justice on organizational trust and investigates relative importance of these dimensions in constructing the trust level of employees. This research has important implications for managers to understand the preferences of employees in term of developing trust level that can help in the establishment of an efficient Human Resource development system in organizations. Employees perception of organizational justice influences their behavior, motivation level, job commitment and performance, thus it makes it a very important topic to study from the organizational point of view (Folger and Konovsky 1989).

The third part of the study builds on the work of Hofstede (1980) cultural dimensions by mapping it from the developing nation’s perspective. It proposes that different dimensions
of justice can have different impact in terms of their strength of their relationship developing the trust level of employees in a given culture. It also probes, whether employees from the developing nations give more weight to economic gain or to the social exchange where transactions are based on trust and intangible gain. It has been proved that in individualistic countries people are more concerned about the individual output and not about collective gain (Triandis 1989). Pakistan’s culture value bonds of caste, community and religion and people use these bonds to reinforced psychological and social setups. Thus, it would be interesting to study the effect of distributive justice, procedural justice and interactional justice on trust level in a developing country like Pakistan with comparatively higher collectivist dimension on Hofstede’s scale of cultural dimensions.

While some scholars assert that justice should be regarded as a unidimensional concept other researchers claim that justice is better conceived of as a three-dimensional or four-dimensional concept (Colquitt 2001a). In contrast to the conventional dichotomy of the dimensions of justice, the present research takes into account three dimensions of justice. Since the focus of the present study was on interpersonal relationship thus a three dimensional organizational justice dimension was considered more appropriate. The present research signifys the importance of procedural justice among distributive and interactional justice. It contributes to literature by stating the role of procedural justice in a collectivist state. The empirical results were also different from the previous studies where distributive justice held importance over other justice dimensions (Greenberg 1990).

The hypothesis proposed in the study centers around the concepts of justice, trust and performance. It incorporates data from primary and secondary sources and sheds light on the relationship between justice, trust and performance both from the micro and macro perspective. The first part of the study was designed to formulate a critical, rich and cross-cultural perspective on trust that may be useful for practitioners to understand and predict the effects on economic performance. This research would not only open new horizons for decision makers and investors but also for researchers who want to further examine trust as an important predictor of several outcomes. The second and third part of the study takes into account justice as a vital predictor of trust. It is pointed out that perception of justice in organizations effect the performance of the organizations. However, this phenomenon is intriguing since, perception is a complicated topic. Organizations that are not able to build a perception of justice among the employees have to face loss in terms of low morale of employees, low level of performance and lack of trust. Thus, this study highlights the important role of trust among justice and performance relationship.
1.4 Organization of the Thesis

The structure of the study is planned as follows:

Chapter 1  This chapter discusses the general variables and specific explanations of the three researches are also detailed.

Chapter 2  This chapter gives an in-depth literature review of the three parts of the study. It includes the hypothesis development and the proposed model.

Chapter 3  Detailed methodology of the three parts is explained in this chapter. It includes data description, measures, results and discussion.

Chapter 4  This chapter discusses the conclusion and policy implications of the research conducted. It also provides future directions for potential studies.
Chapter 2

Literature Review

Trust is an important topic under study by several researchers (Alesina and La Ferrara 2000; Albrecht and Travaglione 2003; Akpınar and Taş 2013). It has great impact on employees well being, motivation and on organizational progress. To explore the impact of trust on progress, this analogy is applied to the economic growth of countries. The results drawn highlight the importance of trust in the functioning of organizations and countries. In this chapter, a theoretical basis for the proposed hypotheses is established. The framework adopted for this study provides a background to the possible research that connects diverse theories of trust, justice and performance. It also elaborates the reason why trust and justice may be among the most significant constructs in impacting organizational performance. The present study takes into account three empirical researches thus the review of literature is presented in three different parts. Part 1, presents the literature review of the first research conducted on trust and economic performance. The aim is to investigate the role of trust on the countries performance. The empirical research has a unique purpose to explain the role of trust and the effect of change in trust level on the potential of investment level and the economic performance of a country. In part 2, the review of literature of the second research is presented. This part details the impact of organizational justice on trust and performance of organizations. Since perception of fairness is the perceived justice by the employees thus this study illustrates the direct and indirect impact of organizational justice on the performance of the organization. In part 3, the literature regarding the dimensions of justice and its impact on organizational performance is discussed. Organizational trust is the mediating variable in this relationship in the software industry of Pakistan. Since, perception of employees has a direct effect on their outcome, attitude and behavior thus this phenomenon makes perception an interesting topic to study.

2.1 Part 1: Level of Trust and Performance

Part 1 of the study observes the effect of trust on the performance of the selected countries. By using cross country panel data analysis, this part measures the change in trust level and its impact on the performance of the countries. The focus in this part is on
trust, considering it to be an important component in gaining economic progress (Dasgupta 2011). Zucker (1986) and Shapiro (1990) have suggested that trust is important for coordination and cooperation at institutional level and at interpersonal level of the employees (Pennings and Woiceshyn 1987). Larson (1992) stated that performance is rooted in the relationship of trust among people. Researchers have also drawn attention to the fact that trust makes it easier to achieve efficiency when parties coordinate with each other especially in a complex environment. The significance of trust is mentioned in literature in negotiation (Bazerman 1994), performance appraisal (Cummings 1983). From sociological perspective, the importance of trust for economies has been studied in-depth by Fukuyama (1995). Prior to the work of Fukuyama (1995), this concept gained attention throughout 20th century when classical researchers believed that all social transactions have an element of trust in them and the reasons of economic backwardness can be traced to lack of mutual trust among the members in an economy (Arrow 1972). Cook and Wall (1980) define trust as the confidence that the other person would not harm in a situation where risk is involved. It works as a bond in which potential risk is reduced and business transactions are not hindered (Corritore, Kracher, and Wiedenbeck 2003).

While studying the concept of trust it is important to understand the difference between affect-based trust, cognition-based trust, generalized trust and particularized trust (Banfield 1958). McAllister (1995) defines affect-based trust as the confidence embedded as a result of emotional attachment with the party. On the contrary, cognition-based trust is the trust based on past records, professionalism and reliability of a person that is earned with the passage of time. Particularized trust arises when people have continuous interaction among each other. Generalized trust is the trust which is earned in the people though norms and culture that they share. Hence, generalized trust is also considered to be as interpersonal trust among the members of a society. Rotter (1967) was among the first ones to define interpersonal trust. He defines interpersonal trust as an expectation that the other person would do or behave according to what is said verbally or in written. Continuous transactions and exchange in people either verbally or in a contract builds a relationship among the parties. Researchers suggest that interpersonal trust among many other factors play a critical role in the performance of a country (Fukuyama 1995; Knack 1999). Putman (1993) was among the first ones to endorse a positive link between interpersonal trust and economic progress of a country. This relationship was further probed by Knack and Keefer (1997). They used empirical data to prove that trust level and economic growth are positively interlinked. Fukuyama (1995) and Putnam (2000) stated that a number of negative results are linked when the trust level falls in a society. The exchange process, business transactions and investment decisions gets very complicated when the members of a society do not trust each other. Additional rules, regulations and contracts are required to facilitate business transactions in such scenario. To safeguard the parties involved in the business transactions rules are implemented which increases the cost of transactions and leaves a burden on the economy. This may not be the only drawback of lack of trust; Principal-Agent problem also arises when the trust level declines among the parties that are indulged in performing transactions. Although researchers agree that the pace of progress declines when the trust level decreases but it is still a dilemma to figure out a method to increase trust among the members of a society.

Sapienza, Toldra-Simats, and Zingales (2013) stated that trust and trustworthiness are
highly correlated. From this it may be concluded that dishonest behavior is less expected in an economy where trust level is high. This also decreases the overall cost of transaction since, less money is needed to protect the rights of the parties. Even the contracts that take place between parties do not need to cover the aspects that interpersonal trust guards (La Porta et al. 1997). There are three main reasons why investors would want to invest in a country where the trust level is high. Firstly, when the investors invest in a country they would have to spend less money to secure their investments. Secondly, investors may be ready to initiate long term financing which is again favorable in a country which has high trust level. Thirdly, property rights are well placed by the authorities in a country where trust prevails.

This is even politically favorable since, high trust level economies decrease the cost of policing and safeguarding the agreements. Wicks and Berman (2004) also endorse that costly governance mechanisms are applied in countries where cultural and institutional support for trust is weak (Yamagishi, Cook, and Watabe 1998). The phenomenon of trust is more complicated than it seems since, the trust level of the members of the society changes across countries. Zaheer and Zaheer (2006) describe how institutional and cultural determinants vary as the level of trust changes across borders. Helliwell and Putnam (2007) state that not across borders but within nations the trust level changes with education level, age groups, income level, social status and geographical situation.

Putman (2000) implies that although trust plays a major role in economic growth of a country but there are other factors that need attention in measuring the performance of a country. Literature proves that progress of a country depends on many factors. Algan and Cahuc (2013) linked the economic growth of a country with the level of income per capita. Similarly, researchers (Lucas 1988; Romer 1990; Mankiw, Romer, and Weil 1992; Aghion and Howitt 1998) prove that human capital is an important component to enhance the performance of a country. Other researchers argue that volume of investment is also a very important aspect to consider if a country wants to follow the path of success (Zak and Knack 2001). Economists and sociologist also point towards the factors such as government spending (Barro 1991), accessibility of trained work force (Shahid 2014), political conditions and the role of institutions as crucial factors to consider for economic growth (Tabellini 2010).

An extensive literature is present on trust and its implications on the countries progress. Researchers (Luhmann 1988; Braithwaite 1998; Brennan 1998; Mansbridge 1999; Sztompka 1999) believe that trust arises in a situation where risk is involved. They all agreed on the point that trust is required the most when incomplete information is present. Luhmann (1988) and Sztompka (1999) considered trust as a belief. When a person is trusted there are certain expectations regarding the future outcomes of his actions. According to Citrin and Muste (1999) trust is dependent on the institution or the person that you want to build the relationship with. As trust is directly related to future expectations of a person thus risk is involved in it (Levi and Stoker 2000). When two parties indulge in some transactions based on trust neither of the two parties are sure regarding the behavior of the other party in the future. The transaction still takes place because the parties are ready to be vulnerable to each other (Gambetta 1988).

Several researchers point that interpersonal trust has a significant impact on the progress
of the country (Dasgupta 1988; La Porta et al. 1997; Knack and Keefer 1997; Glaeser et al. 2000; Zak and Knack 2001; Beugelsdijk, Groot, and Schaik 2004). Literature is filled with evidence that the process of exchange is facilitated as the level of trust rises among the members of the society, this also improves the well being of the people (Arrow 1974; Coleman 1988; Putnam 1993; Dasgupta and Serageldin 1999). Arrow (1972) depicts that the economic system runs smoothly when virtues like trust are present in the society. Fukuyama (1995) supports this notion and states that those countries prosper where the level of trust is better in the society. He further states that the well being of a nation is dependent on the trust level in a society.

2.1.1 Particularized Trust and Generalized Trust

Understanding the definition of trust is not complete till particularized trust is distinguished from generalized trust. Most of the literatures in social sciences have focused on generalized trust. Uslaner (1999) in his work differentiates between generalized trust and particularized trust. Banfield (1958) introduced particularized trust as the trust in people who are closely tied together with strong norms within families. It is acknowledged as the trust that arises from the face to face interaction of people. Moreover, generalized trust arises in people because of the social settings and communities moral values (Fukuyama 1995). It develops among people in general and it not dependent on the interaction among the members. Thus, it may be concluded that generalized trust is the extended trust on people who do not have any relationship with each other. It is the trust on people beyond kinship and friendships. To measure generalized trust, usually the question asked is “In general, do you think that most people can be trusted, or can’t you be too careful in dealing with people?”. From 1950, this has been used as an instrument to measure generalized trust also known as interpersonal trust. The same question has been used to measure interpersonal trust from 1981 in all upcoming waves of WVS (Inglehart 2004). Generalized trust has been the focus of interest of several researchers because of its direct impact on the performance of countries (Fukuyama 1995; Putnam 2000). In social settings, generalized trust facilities the well being of the people. The presence of generalized trust makes it easier for the people to interact and have confidence on other members during transactions (Uslaner 1999). Interpersonal trust is also considered to be a good indicator of measuring social prosperity as in an economic system the exchange of goods and services is also dependent on trust (Sahlins 1972; Gambetta 1988; Newton 1997). In economic setting, it is not only trust but many other mechanisms that facilities the economic transactions. Market mechanisms such as contracts, monitoring and institutional enforcements are the substitutes for trust. Social scientists have reflected on interpersonal trust while examining the relationship of trust and economic growth (Inglehart 1990; Knack and Keefer 1997; Delhey and Newton 2005; Van Oorschot and Arts 2005).

Whiteley (2000) proposes a positive relationship between trust and economic performance. His study highlights the direct impact of trust on performance and concludes that as the level of trust increases the transaction cost decreases. Another finding of their study is that high level of trust in the society facilitates its members to collectively resolve conflicts. A well balanced level of trust also decreases the Principal Agent problem which eventually leads to many positive results for the economic performance. Economies have
2. Literature Review

to face a decline in growth in the form of high cost of transaction and decrease in the level of investment if the trust level among its members falls (Arrow 1974; Fukuyama 1995). The above argument was supported by Knack and Keefer (1997). They suggested that as trust level increases in a society or in organizations the cost of transaction decreases. The same analogy was applied by Zak and Knack (2001). They observed the relationship between social trust and economic performance among 41 countries. They proved that a positive relationship exists between these two constructs. When trust level declines in an economy then government has to spend extra amount to fill this gap. The importance of rules and regulations become more significant in economies where interpersonal trust level decreases. Hence, it may be concluded that a country with a significant trust level will have better chances to attain prosperity and better economic growth.

2.1.2 Performance of Countries

Performance of a country is measured by the Gross Domestic Product (GDP) per capita. There are many other vital factors that have a direct effect on the progress of a country. Researchers state that factors such as political institutions (Knack and Keefer 1995), public and private investments (Khan and Kumar 1997), corruption level (Gupta and Abed 2002), population size and literacy rate (Knack and Keefer 1997) have a direct impact on the economic growth of a country. Education level prevailing in a country plays an important role in determining the economic growth of a country. Some of the reasons how education level effects the performance of a country are detailed below. Firstly, as explained by the researchers (Nelson and Phelps 1966; Benhabib and Spiegel 1994) education assists in spreading of knowledge which makes it easier to implement modern technology. Secondly, education enhances human capital which helps in increasing the productivity of labor (Mankiw, Romer, and Weil 1992). Thirdly, as the education level rises it advances modern technology, innovation and opens new gateways for economic progress. Therefore, it is plausible to propose that a country with well educated masses will have higher probability to attain success. Economists (Mankiw, Romer, and Weil 1992; Barro 1997) also support that education has a positive impact on the performance of the country. Other researchers such as Khan and Reinhart (1990) imply that the amount spent on educating the members of a society may be called as smart investment. Although literature defines investment as the wealth spent on capital goods. Amount spent on educating the masses and on capital goods both helps in increasing the long term and short term labor productivity. Marxist and neoclassical economists have referred to investment as the key in determining effective economic growth. This phenomenon is well explained by Barro (1991). He suggests that labor productivity, government spending on health care facilities and education increases the economic performance of a country. The economic health of a country is also dependent on the domestic investment of the country. Domestic investment is facilitated when the government invests on roads and other infrastructural facilities. For an economy to progress its public sector needs to be stable (Wagner 1883). Not only the public sector but the consumption habit of the economy needs to be monitored. Without a well balanced consumption pattern and planned investment the future growth prospective may decrease and may cause disruption in the society (Anderson 1990).
Countries that want to prosper need close affiliation and cooperation of its political and economic institutions. Researchers (North 1997; Rodrik, Subramanian, and Trebbi 2002; Acemoglu 2003) also emphasize the role of political institutions in economic progress of a country. Rodrik (2007) considers these institutions to be an important component for economies to grow. Economic institutions include institutions that control property rights, regulatory bodies, and institutions for macroeconomic stabilization which are the major source for leading the economies to the path of success. These institutions have a crucial influence on the investment on human capital, industrial production and technology. Economic institutions are responsible for even distribution of resources. If these institutions do not perform their functions well then the distribution of resources shall not be fair. Unequal distribution of wealth leads to the fact that some of the groups may acquire much of the resources leaving inequality in distribution (Acemoglu and Robinson 2006). Robinson, Johnson, and Acemoglu (2005) prove that a country with strong political and economic institutions have balanced power in the society and equal distribution of income. Strong political institutions are the reason why economic institutions become stable in the economies (Commander and Nikoloski 2011). Strong and stable political institutions tend to promote business environment at firm level and it also increases economic growth.

Social capital also contributes towards the economic progress. It highlights the vital role of cooperation and trust within the organization, the market, and the country. To maximize social welfare, the association among the people is necessary (Christoforou 2003). Social capital is broad terms as it facilitates collective action for shared benefits and takes into account the social norms and values. According to different studies conducted on social capital, it is proved that social capital promotes efficiency, reciprocity and growth by aiding collaboration among individuals interest (Brown and Ashman 1996; Heller 1996; Knack and Keefer 1997; Krishna and Uphoff 1999). Social capital holds importance in building generalized trust in the participants. It is built on a relationship where economic benefit is not given much preference (Arrow 2000). One of the most used determinants to measure social capital is, “trust in other persons”. This statement is also used in WVS to measure social capital. To measure social capital, the level of trust is assessed not only from people within the relatives but also from people with different religions and cultures. Previous studies confirm that there are many desirable outcome of social capital. Putman (2000) also stated that when social capital also referred to as social trust increases in the economy, it has many positive quantifiable effects such as lower crime rate (Halpern 1999), better education level (Coleman 1988), equality of income (Wilkinson 1996; Kawachi, Lochner, and Prothrow 1997) less percentage of corruption cases, and increased effectiveness of government (Putnam 1995).

Researchers through empirical studies have highlighted the importance of trust and have strongly supported the hypothesis that trust is vital for the economic growth of a nation. In the first step of analysis of the proposed model, an OLS (Ordinary least squares) model with robust standard error is applied using the cross-country dataset. Secondly, for estimation, the pooled panel OLS technique is applied. This research would add to existing knowledge by explaining how change in trust level affects economic growth. To explain the monotonic relationship between trust and economic performance, a non-linear term of trust is added to the regression model. By adding this term the impact of change in
trust level on economic performance is measured. It is crucial from the decision makers’ point of view since, it would help them in making future decisions.

2.2 Part 2: Role of Justice and Trust in Organizational Performance

In part 2 of the study, the effect of justice is explored on the organizational performance of employees when organizational trust mediates the relationship. Justice is a strong feeling that creates a bond between employees and organizations. Retaining productive employees and maintaining their performance to an optimal level has become one of the major challenges for the organizations in today’s competitive market place. Companies employing high technology professionals face a great problem in managing turnover of the employees (Dockel, Basson, and Coetzee 2006). A great responsibility lies on the shoulder of the managers to make their employees feel like an intellectual asset for the company and not a burden so that employees stay with the organization for a longer period of time (Paré, Tremblay, and Lalonde 2000). For employees to stay committed with the organization it is vital to create an environment where trust prevails. Researchers (Argyris 1964; Zand 1972; Scott 1980; Gambetta 1988) tend to agree with the fact that organizational trust has many visible benefits for the firms and it also promotes employees performance (Barney and Hansen 1994; Owusu-Boateng and Jeduah 2014). Huff and Kelley (2003) suggest that a firm’s ability to remain competitive is dependent on its ability to build an environment based on trust. Organizational trust is considered to be a lubricant that increases the efficiency and effectiveness of an organization (Culbert and McDonough 1986). Organizations are not only a system that transforms the inputs into outputs but a system consisting of social ties and linkages (Blau 1964; Barber 1983). The importance of trust cannot be ignored in well functioning of a system. Organizational trust promotes customer satisfaction (Nyhan and Marlowe 1997; Backhaus and Tikoo 2004), employee attitude (Dirks and Ferrin 2001) and job satisfaction (Nyhan and Marlowe 1997). On the other side, an environment of mistrust leads to many negative outcomes. Employees reduce the level of trust in organization for future and would not perform to their optimal capacity when they may perceive the absence of justice or fair treatment in past. Hence, perception of fairness holds a vital position in formation of trust making it an important construct to study.

It is vital to assess employees’ perception of fairness since, it helps in understanding and building their trust level. MacNeil (1985) states that trust is dependent on exchange process. Exchange can be economic exchange or social exchange (Konovsky and Pugh 1994; Settoon, Bennett, and Liden 1996). Economic exchanges are usually for a short term and are based on economic transactions. Social exchanges are dependent on relational contracts that are not written down but only experienced. Relational contracts go beyond economic exchanges; they are long term in nature and they are based on psychological contracts. Trust is considered to be a vital part in these transactions. Employees in corporations may not indulge in contracts if they do not observe trust in the relationship. Hence, trust is one of the important elements for an organization to streamline the transactions.
2.2. Part 2: Role of Justice and Trust in Organizational Performance

Organizational justice is an important predictor of various outcomes (Rupp et al. 2014). Fairness or organizational justice is a concept based on perceptions and it is difficult for the observer to read the participants mind. The construct organizational justice has developed after Adams (1965) theory of inequity. The theory states that employees build positive perception of fairness when they believe that the managers are treating all the employees equally. Reservations arise when employees perceive that they are not treated equally which results in disappointment and anger (Cook and Hegtvedt 1986). Organizational justice is concerned with the employees’ perceptions of fairness within an organization (Greenberg 1990). Distributive justice, procedural justice and interactional justice are the three dimensions of organizational justice that companies must practice in order to maintain and improve the productivity and efficiency of employees (Adams 1965; Leventhal, Karuza, and Fry 1980; Bies and Moag 1986). Distributive justice highlights the fairness of outcomes that an employee receives in form of rewards and promotions (Greenberg 1990). Among several other concepts that emerged from distributive justice, equity theory is the direct manifestation of the perception of distributive justice (Lee and Mowday 1987; Lind and Tyler 1988). Perceived inequality occurs if an employee cannot find a balance between the ratio of his/her input and output. He/she also compares this ratio with the colleagues input and output ratio to build the perception of justice. A balance between these ratios will create perception of fairness and justice (Greenberg 1990). Procedural justice is the fairness in procedures and rules while making major decisions and determining employees’ outcome (Folger and Konovsky 1989). Byrne and Cropanzano (2001) explain that procedural justice is the most valuable organizational construct and a pillar on which employees’ for perception of fairness. Interactional justice elucidates the interpersonal treatment received by workers from employers and the way decisions and rules are communicated in the organization (Kim and Leung 2007). Past research endorses that the perception of three dimensions of justice has a direct impact on performance, satisfaction level, trust, organizational citizenship behavior and commitment of employees (Colquitt et al. 2001; Nowakowski and Conlon 2005; Whitman et al. 2012).

2.2.1 Organizational Justice

Perception of organizational justice plays a vital role in guiding employee’s attitude and future behavior (Colquitt et al. 2001). Research suggests that workers set their future performance to a certain target keeping in view the nature of the exchange relationship (Wayne, Shore, and Liden 1997). For instance, workers with a perception of unfair justice system reduce their commitment level with the organization and maintain a bare minimum output (Skromme and Baccili 2006; De Clercq, Haq, and Azeem 2018). Studies suggest that the perception of fairness formed in the mind of the workers affect their behavior and attitude (Maxham and Netemeyer, 2002). Perception of fairness is a major job-related motivational base making it a very important component to decrease the turnover ratio of the company. Workers of organizations assess the exchange relationship in terms of a proportion between input of efforts and output of reward. Employees expect a certain level of reward or output from the organization. If they perceive the output to be unfair as compared to the inputs they offer, in form of time and effort, they intentionally decrease
their commitment and performance level. Decrease in commitment leads to the formation of turnover intention. Turnover is a serious problem for the organizations. Organizations have to bear a major loss in form of talent based loss and loss of human capital when an employee leaves the organization.

Research suggests that there are many things that count in forming the organizational justice perceptions. The first antecedent is employees’ participation during the formation of rules and procedures (Greenberg 1982). The second vital factor is the decisions of leaders reflecting fairness towards the employees. The third antecedent is communication i.e. how well the manager communicates information to the employees to reduce uncertainty (Greenberg 1982). It has been proved empirically that organizational justice has a strong impact on organizational trust (Zaheer, McEvily, and Perrone 1998; Mayer and Gavin 2005; Salamon and Robinson 2008; Heavey et al. 2011).

2.2.2 Organizational Trust

Trust has a multidisciplinary perspective due to which its literature is filled with definitions having different viewpoints (Hart et al. 1986; Rousseau et al. 1998). Blau (1964) measures trust as a construct embedded in the social exchange theory. According to Lawler and Thye (2000), social exchange theory deals with the social psychology of people and concentrates on the perception of relative cost and benefit analysis of relationships. Researchers believe that member involved in a transaction measures the transactional benefits against the standards of social exchange (Coyle-Shapiro and Conway 2004). It is stated these standards are subjective and they vary with the people and group members (Choi and Murray 2010). At the organizational level, social exchange theory has offered an explanation that people who perceive justice in procedures and considers that the interaction was fair during the resource distribution gives less value to distributive justice (Majiros 2013). This theory builds on the fact that relationships are dependent on trust. Social exchange increases the level of trust and helps in building a sense of obligation. In fairness heuristic model, trust takes a similar stance. This theory insists that trust plays a vital role for employees in assessing if they are being treated fairly or not. Several decisions of the employees are dependent on the factors explained by fairness heuristic theory. This theory explains that the employees look for precise fairness details while deciding how to perform duties at the workplace (Lind 2001). Meyer et al. (1998) define trust as a level of being vulnerable to willingness. In other words, trust is the willingness of a trustor to be vulnerable to the trustee, taking into account the fact that he expects positive expectations from the trustee. Mayer, Davis, and Schoorman (1995) reveal in their work that trust involves a factor of risk in a relationship which arises when transactions take place. Risk is assumed when the other person may not oblige the expectation. Positive hope, actions and confidence one exhibits on the other person are important factors of trust (Lewicki and Bunker 1995). For this research, trust is defined as the willingness to be vulnerable to the trustee. It is trust that gives the confidence regarding positive expectations of the other party. Usually, there is no formal contract between the two parties especially in a situation where trust is involved. Thus, for this research, willingness to be vulnerable, positive expectations and hope is considered to be two sides of the same coin. In particular, trust is the resultant effect of employees’ belief.
Employees’ confidence that the future organizational decisions are fair is dependent on employees trust level on the organization. Trust level of employees increases when they feel that the current organizational decisions are fair. As a result, a positive reciprocal relationship develops between organizational justice and trust (Deconinck 2010). Trust is not only important from organizational point of view but also from the economic point of view. Foreign direct investors prefer those countries where the trust level is high among its people (Niazi and Hassan 2016). Some researchers pointed towards an opposite relationship between trust and performance. Researchers suggest that there exists a negative and damaging effect of trust on the performance of an organization (Nooteboom, Berger, and Noorderhaven 1997; Gargiulo and Ertug 2006). A study concludes that a high level of trust becomes harmful for the organizations (Mayer and Gavin 2005). A higher level of trust may lead to undesirable outcomes for the organization. Since, excessive dependence of one party on the other party may hamper organizational performance (Gargiulo and Ertug 2006). Gaur et al. (2011) justify that organizational trust have multiple results. On one side, it may produce many beneficial results but on the other side it may be the reason why organizational are falling apart. Thus, from the above argument it may be concluded that organizational trust may or may not have positive impact on the performance of the organizations.

### 2.2.3 Organizational Performance

Organizational performance is an imperative concept. It is used as a tool to monitor and measure the strategies that the organizations adopt for its functioning. Researchers use either financial or non-financial measures to study the performance of the organizations. These measures are important to review since they reveal the development perspectives of a firm. These measures not only depict the performance of the organization but also the performance of the chief executive officer (CEO) (Banker, Potter, and Srinivasan 2000). When economies are not very stable it becomes difficult to measure the performance of the firm using financial data. In such situation, it is difficult to assess the change in the performance of the firm caused by the external factors thus researchers recommend that non-financial measures should be used to measure organizational performance (Ittner, Larcker, and Rajan 1997). It is also recommended to use subjective or non-financial data when the data is not available or easily accessible (Allen and Helms 2002). Organizations to stay competitive need to track their performance level. Organizations continuously strive to improve their performance and hence they put in endless efforts to understand the factors which are important for their growth. Financial gain may not be the only factor that may lead towards the path of success but factors such as perception of fairness, rules, regulations, trust and human capital are also important factors to consider.

### 2.2.4 Hypothesis and Proposed Model

Organizations and societies progress when justice is endorsed (Jafari and Bidarian 2012). When employees of an organization perceive its procedures, employee dealings and its decisions to be fair, they feel secure and develop confidence, giving rise to organizational
trust. Risk taking behavior of employees is also dependent on the perception they build relating to their organization. Trust is a multifaceted variable and a complex construct with various determinants, operating at multiple levels in the organization to facilitate organizational performance. Trust also gives rise to positivity in the employees in form of commitment, satisfaction and professionalism. When organizations practice fairness in the procedures their employees build faith in the organizational rules and regulations. They believe that the decisions management would take would be in the employees’ favor. Conflicts may arise when management has to make decisions regarding employees but keeping a positive attitude towards these conflicts helps employees build a favorable perception about the organization (Jafari and Bidarian 2012). Researchers highlight that trust effects and is affected by perception of fairness (Curran 2010). A study conducted by Polat and Celep (2008) on educational institutions determined a positive relationship between justice and trust. Camerman, Cropanzano, and Vandenberghe (2007) also conclude that organizational justice helps in building trust in organizations. It is also important to note that organizations demand more from their employees due to intensive competitive pressure and they have less job security to offer. This is the main reason why the psychological contracts between employees and employers holds more importance and the role of trust is reshaped and grasping extra attention of the researchers. Keeping in view the literature of justice and trust it is proposed that:

**Hypothesis 1:** Organizational justice has a direct impact on organizational trust.

Blau (1960) reflected on trust as an important factor in social exchange relationships. Since, it is difficult to decide how much to return for a favor therefore, this relationship requires trust so that an obligation may be discharged. Employee would reciprocate more pleasingly if they receive support and encouragement from the employer. Gouldner (1960) provides an interdisciplinary view on social exchange theory and reciprocity. His view contributes in outlining the nature of reciprocity. He states that norm of reciprocity is applicable universally however, its intensity and reaction varies with culture and across countries (Akpinar and Tas 2013). A similar stance is presented by Fukuyama’s (1995) theory on trust. In organizations a decrease in the perceived level of justice creates disparities and anxiety among the employees. Organizations have to spend extra amount to create additional framework to eliminate these disparities. Other than perception of fairness, performance of the organization is affected by the culture, norms, rules and regulations that organizations practices (Shao et al. 2013). Inequality and disagreements caused due to lack of trust may also seriously impede the performance of organization. Both justice and trust brings forth positive behaviors in employees such as organizational citizenship behavior, satisfaction and commitment. Organizational trust is the confidence that the employee observes and develops with the passage of time. Once the employee builds trust on the organization, they also form a positive view about the organizational goals, its leaders and their decisions (Gilbert and Tang 1998; Ismail 2015). Trust is valuable for the prosperity of any economy as well as organizations. It is an instrument for collaboration and enables the organizations to function in a better way. According to Cappelli (1999), employers have realized the importance of trust and hence shifted their focus on maintaining healthy relationship with employees. Developing a good employee-employer relationship
2.2. Part 2: Role of Justice and Trust in Organizational Performance

is a source for success for organizations. Protection mechanisms are enforced by employers to safeguard the rights of the employees. In order to reduce risk in principal-agent relationship, various theories portraying different mechanisms have emerged. As trust is directly related to the development of social capital and the betterment of the economy, several steps have been taken in order to avoid mistrust. Organizations even take legal actions on people who are found guilty to create an environment of trust. Corporations establish rules and regulations and built contracts to give employees a sense of security (Williamson 1993). Mayer, Davis, and Schoorman (1995) also argue that employees trust level fosters efficiency and performance of the organizations. A study conducted in Pakistan concluded that justice has a direct impact on the performance of the employees (Chughtai and Zafar 2006). Researchers also suggested that performance of the employees increased when they felt that their organization trusts them (Salamon and Robinson 2008). Hence, for the purpose of this research, it is proposed that:

Hypothesis 2: Organizational trust mediates the relationship between organizational justice and organizational performance.

Perception of fairness is given due importance by management because it impacts many types of social exchange relationships (Cropanzano et al. 2001). Social exchange takes place with the expectation that the other party would return favorably in the future, this reciprocation is the motivation for social exchange process (Blau 1964). Social researchers (Aryee, Budhwar, and Chen 2002; Cropanzano and Mitchell 2005; Colquitt et al. 2013) affirm that organizations initiate the exchange process by following fair organizational practices. When employees perceive justice in the system they also feel obligated to return the organizations in a positive manner. If employees perceive that organizations are not treating them fairly then the employees retaliate (El Akremi, Vandenberghe, and Camerman 2010). Colquitt et al. (2012) conclude that justice is important to promote relationships, which are positively linked to employees’ performance. As the awareness is increasing among employees so are the organizations becoming conscious about factors like trust, justice, commitment and satisfaction. Organizational justice is a basic requirement for the effective utilization of human capital. It is a deciding point for employees to stay with the organization or to leave the organization (Folger and Konovsky 1989). Several studies prove that justice is an important factor for organizations to gain competitive edge in the industry. Organizations also stress on the fair treatment of workers as it motivates the employees to perform better. According to Owolabi (2012), there are several factors that count towards organizational performance but fairness perception is the most important out of all to increase organizational performance. Thus, for this research it may be proposed that:

Hypothesis 3: Organizational justice has a direct impact on organizational performance.

Performance of the employees is affected by the perception of fairness and the practices that organizations follow. Fukuyama (1995) asserted that firms and nations grow when trust increases among the members of the society or organizations. Fukuyama (1995)
proved in his study that a significant effect of trust exists on the performance of the organizations. According to Dore (1983) trust in organizations works as a facilitator in exchange relationships. Bromiley and Cummings (1989) also stated that organizations that have high organizational trust reduces the need of negotiation in contracts which also lowers the transaction cost and hence makes it easier for corporations to trade. Whiteley (2000) stated that trust decreases the amount spent by corporations on policing the employees and contracts which in essence reduces the financial burden on firms. This also improves the performance of the organization. A vital component to attain prosperity in any economy and organization is to maintain trust. Hence, for the purpose of this research it is proposed that:

**Hypothesis 4:** Organizational trust has a direct impact on organizational performance.

The proposed model of this part of the study is presented in Figure 2.1. It is suggested that the perception of justice has a direct impact on the organizational performance and trust mediates the relationship between justice and performance of the organization (Kramer 1999; Dirks and Ferrin 2001; Moon 2017). Argyris (1973) points that perception of trust increases employees’ performance. The significance of relationships becomes vital when they are based on trust (McCaulley and Kuhnert 1992). It has become one of the challenges for the organizations to increase and maintain a healthy relationship with its employees to achieve the desired goals (Arrow 1974; Gulati and Nickerson 2008). Some studies also recommend that organizations cannot function properly until trust does not exist in the employee and employer relationship. Several organizations regard it to be a vital component to attain competitive advantage and long term stability for a company (Tan and Lim 2009). Positive social processes also initiate because of trust (Zhang et al. 2008). Literature also supports that trust and performance are positively linked (Rich 1997; Davis, Schoorman, Mayer, and Tan 2000; Mayer and Gavrin 2005). A different perspective is drawn by (Zaheer, McEvily, and Perrone 1998; Dirks 1999) they believe that there is no significant relationship between trust and performance. Other researchers have also suggested that a negative relationship exists between trust and performance (McEvily, Perrone, and Zaheer 2003; Krishnan, Martin, and Noorderhaven 2006). This part of the study holds importance as empirical studies conducted in the past have led to many contradictory results and they require further clarification (Dyer and Chu 2011; Gaur et al. 2011).
2.3 Part 3: Dimensions of Justice, Trust and Organizational Performance

In the third part of the study, the three dimensions of justice are examined. This research considers the impact of the facets of justice on organizational trust. Literature states that justice has impact on the trust level of employees thus it is vital to know the dimension, that affects trust level the most. Parker and Kohlmeyer (2005) inferred after investigation that organizational justice is a major studied topic in the field of organizational behavior. Justice is a concept that holds equal importance for economies and for corporate organizations. Employees tend to stay for a longer period of time in an organization where employees perceive that justice prevails. Employee behavior, social exchange relationships and performance is closely tied with the way how employees perceive justice in the organization (Masterson et al. 2000; Cropanzano, Prehar, and Chen 2002; Colquitt, Greenberg, and Zapata-Phelan 2005). Beugre’ (1998) explains organizational justice as the perception of fairness and instigates the impact of justice on the behavior of employees in the firm. From the literature, it is clear and proved that motivated employees add special value to the productivity of the organization (Isfahani, Bahrami, and Torki 2013). Employee’s turnover increases when they perceive that injustice prevails in the organization. The principal-agent relationship has gained much attention by the social scientist since, firms are well aware that human resource is one of the strategic assets to gain competitive advantage (Ehrlich 1994; Rousseau 1998; Cappelli 1999).

Adams (1963, 1965) coined the word perception of fairness. He further elaborated that employees develop perception of fairness of outcome (distributive justice) which is based on equality. Researchers agree that, employees would be less commitment with the organization, if employers are not able to develop policies that are fair (Homans 1961; Leventhal 1976). The concept of distributive justice is embedded in the equity theory (Deutsch 1975; Crosby 1976; Folger 1984). Equity theory states that employees form perception of fairness by keeping in view the ratio that they receive in the form of incentives as compared to the efforts that they put in the work. Employee performance increases as they receive fair treatment from the employer. When employees perceive that the organizations are not treating them fairly then they form turnover intentions or barely meet the requirements (Mikula 1986). Employees that observe injustice not only form intentions to quit but also face health problems and stress which eventually hampers their performance level (Colquitt 2004). Research suggests three forms of justice namely distributive justice, procedural justice and interactional justice. Distributive justice is reflected when the employees perceive justice in distribution of outcome. Lind and Tyler (1988) presented the concept of procedural justice. The main theme of procedural justice is the stress on the system and policies that the organizations follow during the decision making or reward distribution process (Saunders and Thornhill 2003). Procedural justice holds great importance among employees. Dissatisfaction exists in the employees if they believe that the rewards are fair but procedures and policies adopted were not impartial. The third dimension of justice i.e. interactional justice emphasizes on the relationship with employees. It states that workers build perception of justice if they are interacted and communicated properly during managerial decisions (Bies and Moag 1986). Aryee, Budhwar, and Chen (2002) argue that employees who perceive that organizations are fair
had higher level of trust in the organization, better satisfaction level and were committed towards attaining the organizational goal. Research scholars (Pennings and Woiceshyn 1987; Mayer and Gavin 2005) made it evident that trust is an important component in maintaining a long lasting relationship among managers and employees. According to Bachmann (2001), trust is a solution to the problem of coordination among the members involved in the transactions.

Trust holds importance not only for small but for large organizations (La Porta et al. 1996) and economies (Fukuyama, 1995). Trust is defined as a state where one person relies on the other person and feels dependent on the decision of the other party (Rousseau et al. 1998; Robbins 2012). Positive expectations from the other party are a key facet of trust. Trust has a component of risk in it, as one person is relying on the behavior of the other person and expects positive conduct in the future (Lewicki and Bunker 1995; McAllister 1995). Deutsch (1973) defines risk as the belief of one person to be vulnerable towards an uncertain situation. Organizational trust can be defined as the trust that prevails among the members in an organization. Trust works as the critical link among employees and the organization. Aryee, Budhwar, and Chen (2002) in their work imply that trust is rooted in the social exchange theory. According to this phenomenon people will treat other people adequately in return of something or a favor in the future. Blau (1964) explains the social exchange model as a voluntary positive action that an employee would offer to the organization. The employee may not be sure about the future returns from the organizations but would expect a positive and favorable response from the organization in time of need. Blau (1964) also narrates that trust is a confidence that develops with the passage of time. Trust also reduces uncertainly among the members of the organizations. Literature presents two dimensions of trust namely cognition based trust and affect based trust (Lewis and Weigert 1985). Trust that builds with the passage of time is called cognition based trust. Its formation is based on a person’s past performance, education level, training and personal judgment of the evaluator is also involved (McAllister 1995). Affect based trust is the trust that is perceived due to the judgment of others. It basically involves emotional ties among the two parties.

There are various factors that count towards building trust level among the employees’ justice is one of them. According to a study conducted by Cohen-Charash and Spector (2001), organizational justice and organizational trust are positively correlated. Both perception of organizational justice and trust brings with them numerous invisible benefits. Lewicki, Wiethoff, and Tomlinson (2005) consider organizational trust to be a consequence of organizational justice. Several researches have been conducted on organizational justice and organizational trust (Folger and Konovsky 1989; Pillai, Schriesheim, and Williams 1999; Cropanzano, Prehar, and Chen 2002; Korman and Hanges 2002; Colquitt et al. 2012, Thomas and Nagalingappa 2013). However, this study would add value to literature by exploring the relationship between justice, trust and performance keeping in view, the context of a developing country.

Human resource holds vital importance for organizations hence, it is essential to pay attention and include their perspectives while making decisions (Rousseau 1998; Cappelli 1999). Researchers believe that things get complicated when the interest of employee and employer diverges thus to keep it intact social exchange is important. In any organization the relationships among its members are based on the social exchange. Ideally, employers
are expected to practice fairness and equality in the organization and employees in return are required to work for the betterment and attainment of organizational goals. Perception of fairness among employees plays a significant role in organizations to achieve their targets. The term organizational justice was developed by Greenberg (1987). It refers to the perception of justice in an organization by the employees. Employees tend to remain committed and satisfied with the organizations where they perceive fair treatment, job security and commitment of the managers (Barling and Phillips 1993). According to Cropanzano et al. (2001) and Greenberg (1990) organizational justice is the perception of fairness among the employee regarding the decision making standards of the firm. Konovsky (2000) explains that fairness holds key value in an organization. The idea of organizational justice incorporates rational, honest and realistic behavior with the employees (Randeree and Malik 2008). Literature evokes three dimensions of organizational justice, namely distributive justice (Adams 1965), procedural justice (Leventhal 1980) and interactional justice (Bies and Moag 1986).

2.3.1 Distributive Justice

Distributive justice is a concept which deals with the allocation of resources by the firm. Brockner et al. (1996) believe that distributive justice is concerned with the self interest of employees. According to a research conducted by Colquitt, Greenberg, and Zapata-Phelan (2005), employees showed high concern about the distribution of rewards. Distribution of resources is a phenomenon rooted in Adams (1965) theory of equity. This theory focuses mainly on the consequences of inequality in distribution of resources. Adams proves that pay inequality is one of the major reasons why workers perceive discrimination. He further elaborates in the equity theory of motivation that workers in a firm compare their input ratio with the output ratio given to them by the firm. In this case, input represents the amount of effort that they render to the firm and output refers to the amount that the firm pays them in form of money or rewards. Employees not only compare their inputs with the output that the firm offers but they also compare it with their colleagues working in the same organization and also with colleagues in other organizations. De-motivation exists if employees receive less than their own built perception level. This phenomenon forces the employees mentally to reduce their efforts in work. However, employees increase their efforts if they believe that the organizations are paying them more then what they deserve. It is a challenging situation for the firms since; it is difficult to avoid inequality perception. If all employees are treated equally and distributed the same amount of rewards even then perception of inequality may occur because an employee who contributes more effort and time in work would expect a higher return (Scandura 1999). Greenberg (1990) criticized Adams theory of equity, insisting that this theory does not answer how strategic plans were to be administered. To solve the dilemma raised by Greenberg (1990), referent cognitions theory (RCT) was introduced by Folger (1986). This theory focused on the psychology of social justice. Folger explained in this theory that workers consider injustice in treatment when they believe that the use of some other standard could result in a favorable outcome. However, Folger and Cropanzano (2001) in their research concluded that RCT only considers economic gain and does not value the social interest (Blau 1964). Folger and Kass (2000) stated that when workers perceive
inequality in the procedural or distributive justice they develop a reference point in their mind. They do mental comparison of what has happened with what might have happened in that situation. This mental comparison is the reason of the workers reaction and behavior. Social scientists have stressed on the importance of distributive justice in literature (Moore 1978; Greenberg 1990). It is agreed by many researchers that there are many consequences such as socio-emotional and economical attached with the distribution of rewards (Colquitt 2001a).

2.3.2 Procedural Justice

Justice is associated with what is morally and ethically right. It is dependent on laws, rules, regulations and procedures to function optimally. Perception of justice has diversified outcomes for the firms (Tabibnia, Satpute, and Lieberman 2008). The attention of employees shifted to procedures rather than the outcome from mid 1970’s to 1990’s. This dimension was named as procedural justice. The context in which this concept came into being was a legal dispute (Thibaut and Walker 1975). Procedural justice deals with the perception of people regarding fairness of procedures that the authorities undertake while deciding on the pays, promotions and resources. However, it was limited for many years to legal procedures and disputant reactions only. Procedural justice was introduced in the organizational context by Leventhal, Karuza, and Fry (1980). They stated that workers accept the decisions whether fair or unfair based on the procedures through which they have arrived. If employees judge that the procedures followed during the decision making process was fair then they remain satisfied with the reward. Skarlicki and Folger (1997) explain that negative behavior and retaliation by the employees’ is the end result for organizations that are not able to follow the system and regulations.

Procedural justice dominates the self-interest of employees and pays attention to the policies and regulations adopted while decision making takes place. This is the reason why some researchers call procedural justice as the social justice and distributive justice as personal justice. According to Lind and Tyler (1988), workers who give weight to procedures and rules in an organization are not much concerned with the economic gain but value the emotional attachment that the group members and family members have. This is the primary reason why they accept the circumstances where they might not receive the benefits but value the fact that fair policies are being practiced. Long term benefits are associated with the fairness perception. An organization that follows these practices gives a sense of security, for the future, to its employees (Thibaut and Walker 1975; Hendrix et al. 1998; Holbrook 1999). Thus, according to Conlon (1993) fairness in procedures enhances workers performance. Employees develop negative behavior and attitude if they find that the rules are not followed in their true spirit. A study conducted by Brockner et al. (1997) empirically proved that fairness in procedural justice increases trust level among the employees.

Past Research establishes that procedural and distributive justices are two separate constructs (Konovsky 2000; Cropanzano, Prehar, and Chen 2002; Erdogan and Liden 2002). Lind, Kanfer, and Earley (1990) provide evidence that both of these constructs have significant impact on the trust level of employees but procedural justice has a stronger impact.
on trust then distributive justice. According to Alexander and Ruderman (1987), distributive justice is positively and strongly associated with job satisfaction and employee performance. Moreover, procedural justice is strongly associated with the building of trust in firms (Folger and Konovsky 1989).

2.3.3 Interactional Justice

It is another dimension of justice introduced by Bies and Moag (1986). It focuses on the interpersonal treatment that workers receive during the distribution of resources. Social scientists (Bobocel and Holmvall 2001; Cropanzano and Ambrose 2001; Ambrose et al. 2005) endorse that interactional justice and procedural justice both are one and the same construct. For the present study they are measured as two separate constructs. Interactional justice is based on the ethics of truthfulness, interpersonal communication and respect. Mikula, Petrik, and Tanzer (1990) concluded that a major cause of perceived injustice by the employees was due to the interpersonal treatment that they received during distribution of resources. The way employers address and communicate with the workers has a very strong impact on their attitude and behavior. It is a basic principle to form a long lasting and strong relationship between the employee and the employer (Degoey 2000; Lamertz 2002). Four measures have been identified by Bies and Moag (1986) that highlight the value of treatment. These measures included respect, honesty, modesty in communication, explanation and reasoning of the decisions made. It is clear that if employees are not treated with politeness and respect then it may force the employees to behave in a negative way, stealing office property may be one of the consequences (Greenberg 1997). Lind and Tyler (1988) state that employees feel motivated if they are treated as a member of a group and are given value and respect.

2.3.4 Organizational Trust

Employers make different strategies to build trust level in the employees so that they remain committed with the organization (Whitener et al. 1998). Trust is found to be negatively related to turnover intention (Alexander and Ruderman 1987; Robinson 1996). Trust plays a vital role in enhancing performance of the employees hence; many social scientists have diverted their attention to this topic (Likert 1967; McGregor 1967; Argyris 1973; Hosmer 1995; Kramer and Tyler 1996; Clark and Payne 1997; Mayer and Davis 1999; Kim et al. 2006; Yuan and Zamantili 2009). Kramer (1999) elucidates that trust holds a vital position in contemporary research and organizational theory. Perceived trust level increases when employees notice that the organizations are treating them well (Whitener 1997). Mayer, Davis, and Schoorman (1995) describe trust as the willingness of an individual to be vulnerable. Aryee, Budhwar, and Chen (2002) stated that trust has a positive impact on employees’ performance and the extra role performance of the employees (Ramaswami and Singh 2003). Fukuyama (1995) believed that trust arises among people when they meet regularly and create an expectation of honest behavior. A company that tries to build a strong bond between management and the employees in terms of trust tends to have favorable outcomes for the organization. Organizational trust
plays a vital component in forming a psychological contract with the organization (Guest 1998). Tan and Tan (2000) suggest that psychological trust is important for employees to stay committed with the organization and decrease the intentions to quit (Konovsky and Cropanzano 1991; Laschinger et al. 2000). Kramer (1999) stated that employees form turnover intentions when they observe a breach in the psychological contracts. Psychological contracts are dependent on the phenomenon that the trustee will behave in a positive and optimist manner where risk is involved. In such situation, one party is taking risk and forming positive expectations regarding the other party. Three dimensions of trust directly affect the formation of trust: identification-based trust, calculus-based trust and knowledge based trust (Lewicki and Bunker 1996). Identification based trust is developed when individuals get the feeling of attachment with the other person which may be based on a certain group, norm or culture that he belongs too. Emotions play an important role in identification based trust. Knowledge based trust depends on knowing the other person to a degree that one may be able to predict the behavior of the other person. Calculus based trust depends on the logically derived cost and benefit analysis from a relationship.

Research suggests that trust level among employees in public sector organizations is very low especially in developing countries (Nachmias 1985; Laschinger et al. 2000; Albrecht and Travaglione 2003). Social scientists (Cook and Wall 1980; Clarkson 1998; Velez 2000) argue that employees’ fair perception of trust is not only beneficial for firms to attain progress but it also influences the attitude of the employees in a constructive way. Diffie-Couch (1984) justifies that no relationship can survive without trust. Studies define organizational trust as positive expectations based on organizational role, interdependencies and relationships among the members of the organization (Mayer, Davis, and Schoorman 1995; Shockley-Zalabak, Ellis, and Winograd 2000). Positive outcomes such as increased productivity and organizational commitment (Hopkins and Weathington 2006), job satisfaction (Driscoll 1978) and decreased absenteeism and turnover intentions (Perry and Mankin 2007) are associated with high organizational trust level.

Literature defines two major aspects of trust in an organization: cognitive and affective trust (Dirks and Ferrin 2002). According to Mayer, Davis, and Schoorman (1995) cognitive trust arises when one party asses the other party on the bases on reliability, predictability and the capability. McAllister (1995) defines affective trust as trust that is formed based on emotions and feelings with the other person. Lewicki, Wiethoff, and Tomlinson (2005) believe that the relationship between justice and trust is incomplete until cognitive trust is not considered. The main aim of this part of the study is to propose a model based on past empirical research that represents the vital role of organizational trust in the organizational justice and organizational performance relationship. Researchers (Rempel, Holmes, and Zanna 1985; McAllister 1995) believe that cognition based trust is important in principal-agent relationship. However, Cummings and Bromiley (1996) prove that emotions, beliefs, attitude and feelings are far more important than the cognitive factors. Cognitive trust is based on knowledge driven strategy. A state where there is enough knowledge regarding the other person is a condition where risk is not involved and trust is redundant. But Williamson (1993) highlights that firms do consider knowledge before hiring employees to reduce uncertainty. A positive relationship was found between organizational trust and organizational performance (Paliszkiewicz, Koohang, and Nord
2.3. Part 3: Dimensions of Justice, Trust and Organizational Performance

2014). Empirical evidence also exists where organizational trust has a strong impact on intention to stay with the firm, organizational commitment, and organizational citizenship behavior (Liou 1995; Robinson and Morrison 1995; Robinson 1996). The present research highlights the in-depth relationship between dimensions of organizational justice and organizational performance. Several researchers have considered justice to be either unidimensional (Moorman, Blakely, and Niehoff 1998) or two dimensional (Pearce, Branyiczki, and Bakacsi 1994; Masterson et al. 2000). Although, research has been done on these topics but the three facets of justice have not been considered simultaneously (Manogran, Stauffer, and Conlon 1994). In the present research the impact of three dimensions of justice is observed on organizational trust further, the effect of organizational trust is also monitored on the organizational performance.

Research has been conducted in the past where trust is considered to be a mediator between organization justice and employee outcome but only trust in supervisors were considered (Konovsky and Pugh 1994; Pillai, Schriesheim, and Williams 1999). An employee may form the perception of trust which may be due to the supervisor (i.e. specific individuals) or the organization that he is working for i.e. generalized (Whitener 1997). Thus, if attention is given to trust in supervisors only then it would not show the complete picture of its impact on organizational performance. Whitener et al. (1998) built the notion that the formation of trust by the employee is very much dependent on the manager. He states that trust is a virtue that increases because of the actions of the manager which is rooted in the social exchange theory (Whitener et al. 1998). Trust is dependent on social exchange relationship (Blau 1964). In other words, trust may be the resultant factor of social exchange relationship. Social exchange theory states that when two parties interact with each other they make exchanges with expectation of favor in return. However, the time for reciprocation is not mentioned during the transactions. It is a feeling that arises in the parties that the other person would do well or as expected at the time of need. This state of reciprocity uplifts cooperation in the organization and increases the progress of the organization (Tsai and Ghoshal 1998). Adding to the model presented by Konovsky and Pugh (1994) and Masterson et al. (2000), it is proposed that organizational trust mediates the relationship between the dimension of organizational justice and organizational performance.

2.3.5 Organizational Performance

Organizational performance is dependent on the performance of the managers and the employees (Armstrong 2009). Managers try to increase the performance of the organizations by creating a perception of justice in the minds of the employees. Usually, if an organization is not performing well then its manager is being replaced to uplift the performance of the organization (Salancik and Pfeffer 1980; Brown 1982). Pfeffer (1998) proposes that managing human resource may be the most difficult and most expensive thing in the organization however, if managed properly is an asset and gains advantage for the organization. When employees perceive greater fairness in justice, job satisfaction and a better social exchange environment then they are less likely to form turnover intentions (Becker et al. 1997).
Organizational performance has been measured in the past through financial measures and non-financial measures. Sufficient research is conducted in the past that supports and validates the use of both objective and subjective indicators to measure organizational performance (Wall et al. 2004; Andrews, Boyne, and Walker 2006). Researchers (Govindarajan and Gupta 1985; Nanni, Dixon, and Vollmann 1992; Kaplan and Norton 1996; Ittner, Larcker, and Rajan 1997; Perera, Harrison, and Poole 1997; Ittner and Larcker 1998; Elo et al. 2014; Reynolds and Hicks 2015) have reported that in social research much attention is given to the increased use of non-financial measures to measure organizational performance. Kaplan and Norton (1996) were great proponents of the use of non-financial measures. They propose that non-financial measures help managers to determine the dynamism of business environment, verify if the organization is achieving the stated goals and affirm if organizations are realizing their desired objectives. Chenhall and Morris (1986) recommend that non-financial measures are more reliable to measure organizational performance when the environment is highly uncertain. They also suggested that financial measures are internal to the organizations thus they, may not be the best way to predict the organizational performance of a firm (Mia 1993; Gul and Chia 1994; Mia and Chenhall 1994; Chong and Chong 1997; Hoque 2004). In the present research organizational performance was measured using subjective data by the employees.

Fairness perception is considered to be a very sensitive topic. Organizations not only need to practice fairness but also build a perception of fairness among employees. It is identified as one of the core values of an organization (Konovsky 2000). This topic needs to be studied in detail as it has profound repercussions for everyone who is associated with the organization. People tend to perceive justice similarly despite of age, gender, race, education level, and tenure (Cohen-Charash and Spector 2001). Justice has a significant impact on the performance and competitiveness of the organization. Wong, Ngo and Wong (2002) suggest that not only justice but trust has a considerable impact on the performance of an organization. This research draws the attention towards the fairness theory (Folger and Cropanzano 2001) and the counterfactual processing literature (Cropanzano et al. 2001) to present an explanation of how perception of justice affects organizational trust. Social exchange theory of Blau (1964) argues that trust is a consequence of perceived fairness of justice (Greenberg 1986). Blau (1964) determines that trust builds and fosters with the passage of time as the social interactions increases.

Perception of justice or trust cannot be build until the organization practices the virtue of equality. Research differentiates between equity and equality norms. Equity theory states that a person should be paid in accordance to his performance. Countries that are labeled as individualistic countries follow the equity norms. On the contrary, a collectivistic state prefers to adopt equality in reward system. Equality in rewards means that all the members of the group should receive benefit equally (Ahmad 2004; Chen et al. 2013). A collectivistic state is more concerned with group harmony and the virtue practiced is to move ahead, keeping the whole group together. People belonging to these states are not concerned with individual gain but are concerned with the gain at large. Thus, previous research points that in a collectivistic country like Pakistan employees are less likely to adhere to the norms of distributive justice.
2.3.6 **Hypothesis and Proposed Model**

Literature implies different relationship of the dimensions of justice with organizational trust. Barling and Phillips (1993) in their study propose that distributive justice plays a vital role than procedural justice in the relationship between organizational justice and organizational trust. Empirical studies (Masterson and Taylor 1996; Malatesta and Byrne 1997) proved that distributive justice has a direct impact on the trust level in an organization. Tyler, Rasinski, and McGraw (1985) implied that distributive justice had twice the impact on satisfaction then procedural justice. Literature pertaining to the organizational justice suggests that distributive suggest is linked with individual behavior and procedural justice is more concerned with the institutions. Formation of justice perception in the minds of the employees is a very important factor for the organizations. McFarlin and Sweeney (1992) also highlight that the workers perception of organization justice greatly impacts the trust level that prevails in the firm. Perception of justice also plays a vital role in forming commitment and performance of the employees. Workers who face inequality in the distribution of resources are less motivated to work and there are high chances for them to form intention to leave the organization (Mishra and Spreitzer 1998). Previous studies (Skarlicki and Folger 1997; Cohen-Charash and Spector 2001), suggest that distributive justice is positively and directly linked with trust. Keeping in view the literature, the first hypothesis is proposed as:

**Hypothesis 1:** There is a positive relationship between distributive justice and organizational trust.

It is of great importance and significance for firms to retain valuable employees in order to improve workers commitment, satisfaction and organizational performance. Fairness is a key factor for employees to exhibit positive attitude. In organizational settings, fairness related research was mostly inspired by Adams’ (1965) theory of inequity. However, the focus changed from distribution of resources to fairness in procedures with the work of Thibaut and Walker (1975). They implied that, employees accept the results if the procedures followed are fair. But if employees feel that the procedures were unfair, then the workers question the decisions and eventually form intentions to leave the organization (Thibaut and Walker 1975; Leventhal 1980; Reynolds and Hicks 2015). The feeling of unfair treatment by the employer promotes dissatisfaction and decline in the trust level of the employees. Future expectations of the employee from the firm are also negatively affected by such actions. Research endorses a positive relationship between procedural justice and organizational trust (Skarlicki, Folger, and Tesluk 1999; Jafari and Bidarian 2012). Generally speaking, organizations are careful in forming and implementing rules and regulations to avoid the perception of injustice. Even then building a fair perception in the minds of employees is difficult. Organizations may be following the rules of equality but employees may not perceive it in the same way. Hosmer (1995) stated that a psychological contract is formed among the employer and the employee based on perceptions. Studies reveal that employee’s moral level increases when these psychological contracts are reinforced. On the contrary, breach of these contracts result in dissatisfaction, retaliation and resentment by employees (Cohen-Charash and Spector 2001). Another reason
2. Literature Review

why employees may not perceive fairness although the organizations are practicing fair rules can be explained by Hofstede (1980) cultural dimensions theory. He justified that management practices differ across the cultures. In an individualistic society, self interest of employees are dominant over the interest of the people and in collectivistic countries, people prefer group norms and group benefits (Ramamoorthy and Carroll 1998). Studies highlight that in collectivist countries cooperation is the standard goal and in individualistic countries competition is the main aim (Ramamoorthy et al. 2005). Literature also proves that in individualistic countries people would be of more concern regarding their own interest. However, less literature on collectivistic culture is present to show the impact of distributive and procedural justice on organizational performance (Berman, Murphy-Berman, and Singh 1985). Negative outcomes such as dissatisfaction, low level of commitment and decreased work task performance are expected from employees who perceive injustice in procedures at the workplace (Robinson 1996). Thus, the way decisions are made regarding resources and how well the rewards are distributed both impact employee trust level. Therefore, from the above argument it is proposed that:

**Hypothesis 2:** There is a positive relationship between procedural justice and organizational trust.

Formation of the perception of justice is not only dependent on procedural and distributive justice but also on interactional justice (Colquitt, Greenberg, and Zapata-Phelan 2005). Bies and Moag (1986) explain that workers take into consideration the actions and explanations of the decisions that supervisors give during the resource distribution process. Researchers (Moorman 1991; Williams, Pitre, and Zainuba 2002) have explored this dimension of justice and support its deep effect on trust level, employee attitude and organizational citizenship behavior. In an empirical research conducted by Khiavi et al. (2016) a positive relationship between interactional justice and organizational trust was observed. Cropanzano, Prehar, and Chen (2002) declared that interactional justice has a stronger effect on the outcome variables such as trust then procedural or distributive justice. A study narrated that less interaction among the principal and the agent leads to divergence of interests (Lowry et al. 2010).

Literature suggests interactional justice as a vital component in determining organizational trust (Kickul, Lester, and Finkl 2002; McShane and Von 2005). Researchers confirm that people are often more sensitive about the treatment that they receive from their supervisors during enactment of policies and decisions. Feeling of interactional justices arises in an employee when an employer treats an employee with respect and courtesy. According to Olkkonen and Lipponen (2006), interactional justice has a stronger impact on employee trust than that of procedural justice. Although the concept of interactional justice is much studied but its influence and relationship with trust and performance is less focused in collectivist states like Pakistan (Zakaria 2007). Interactional justice not only invoke positive outcome but also has many indirect implications for the organizations such as job satisfaction and commitment (Pettijohn, Pettijohn, and d’Amico 2001; Ismail 2015). Research conducted by Bies and Moag (1986) also narrate that international injustice leads to procedural injustice. Since, interactional justice is more related to respect, ethics, procedures and politeness thus, if employees perceive communication to
be unfair then they would also perceive the procedures and rules to be unjust. This may lead towards dissatisfaction and low morale in performance. Using the same analogy it is proposed that:

**Hypothesis 3:** There is a positive relationship between interactional justice and organizational trust.

Empirical evidence proves that employees who have higher level of trust in their organizations tend to perform better than those organizations where low level of interpersonal trust prevails among its members. Brayfield and Crockett (1955) affirm that firm’s performance is directly affected by employees’ attitude (Gould-Williams 2004). In economics, the role of trust is gaining attention both at organizational and macro level (McCauley and Kuhnert 1992; Zak and Knack 2001; Algan and Cahuc 2010; Niazi and Hassan 2016). Tan and Lim (2009) describe organizational trust as a tool to achieve competitive advantage. It is also an important ingredient as detailed by Cook and Wall (1980) to achieve long-term stability and welfare for organizations. Organizational trust holds great importance for the firms to function properly (Arrow 1974; Gulati and Nickerson 2008). However, some authors do not agree with the fact and proved that trust and organizational performance is negatively linked (Zaheer, McEvily, and Perrone 1998; Dirks 1999; McEvily, Perrone, and Zaheer 2003; Krishnan, Martin, and Noorderhaven 2006). This contradictory conclusion requires more explanation and hence, this part of the study tries to explain the in-depth relationship between organizational trust and performance.

Theorists (Liou 1995; Robinson and Morrison 1995; Robinson 1996) proved with empirical evidence that trust leads to many favorable outcomes for the organizations. But the relationship built on trust is also not free of risk. It plays an important role when uncertainty arises in relationships. Hoe (2007) concludes that if there is no trust in the organization then employees tends to become more objective in justifying themselves which also limits their involvement with the organization. A higher level of interpersonal trust promotes the desire of knowledge sharing. On the other hand, when interpersonal trust level decreases, employees change their intentions to stay with the organization and decrease the involvement in the organization (Mayer and Gavin 2005). This also leads to distraction at work and holds back the employee from performing better (McAllister 1995). Trust also works as uncertainty reducer (Blau 1964). According to Rousseau et al. (1998), trust gives the confidence in the relationship that the other party would perform according to the expectation when required. Following the lines of various researchers (Rich 1997; Davis et al. 2000; Mayer and Gavin 2005) it is also proposed that justice fosters trust and increases organizational performance.

**Hypothesis 4:** There is a positive and direct relationship between organizational trust and performance.

Although significant research has been done on justice and trust but the connection between them still remains unclear (Folger and Konovsky 1989; Cropanzano, Prehar, and
2. Literature Review

Figure 2.2: The Proposed Research Model When Trust Mediates the Relationship

Chen 2002; Kernan and Hanges 2002; Ambrose and Schminke 2003; Begley, Lee, and Hui 2006; Stinglhamber, Cremer, and Mercken 2006; Lance et al. 2010). This part of the research explores the link between dimensions of justice with trust and how trust mediates the relationship between justice and organizational performance. The proposed model is presented in Figure 2.2. This part of the study was conducted to gain in-depth understanding of the role of trust in organizational justice and performance relationship. Rosenberg and Trevino (2003) conclude from their study on fairness among employees that a pleasant relationship between employees and employer opens new opportunities for the firm to grow. This relationship has many benefits for the employees. Employees who experience justice in organizations and believe that the management trusts them tend to increase organizational performance (Lind and Tyler 1988).
Chapter 3

Methodology

This chapter describes the actions taken to investigate the proposed hypothesis. It provides details about the techniques used in selecting and analyzing the data. It also explains the research design and methodology. Detail about the data, measures, analysis, results and discussions are also presented in this chapter. The lens through which a researcher observes the human behavior especially in a social exchange network greatly depends on the paradigmatic approach they follow. It is proposed that the research questions should be precisely and rationally linked with the epistemological view and with methods used to study the selected research area (Crotty 1998; Bryman et al. 2008). Moses and Knutsen (2007) differentiate between the two epistemological viewpoints observed by the researchers i.e. constructivism and positivism. The positivist view states that reality needs to be investigated and it is beyond researcher’s knowledge. In this stance the focus is on the explanation of a situation, the actual reality behind a scenario and the subjective reasons that motivates actions of people. Researchers use the constructivism approach to comprehend the nature of the social world (Burrell and Morgan 1979). Weber (2004) explained that according to this paradigm the experience of people is the most essential and basic source of knowledge for them. Saunders et al. (2009) states that from the ontological perspective the constructivists consider the nature of reality as something subjective, socially constructed which may change. Since the focus of the present study was to test, measure and generalize the results thus the quantitative approach (naturalist or positivist) was considered more suitable than the qualitative technique (constructionist or interpretivist).

The first part of this chapter presents the methodology used in conducting research on social trust and economic growth. To understand the relationship in a comprehensive way, variables such as human capital, skilled workforce, the role of political institutions and income per capita were also taken into consideration. Based on cross-country and panel dataset, the robustness of model is complimented by taking into account the in-depth analysis. A sample of 64 countries was drawn and cross country analysis was applied. The required data was drawn from the World Values Survey (WVS) and Eurobarometer for the period 1980 – 2014. For further analysis and to get more insight in the results, the sample countries were divided into developing and developed countries. The result of the study highlights the significant effect of social trust on the economic performance of the
countries. A non-linear term of trust was further added to the regression model to see the impact of change in trust on the performance of the countries.

Part 2 describes the methodology used to explain the relationship between justice, trust and performance. For empirical analysis, data is collected from the software industry of Pakistan. Limited research is available specific to Information Technology (IT) sector employees. The present research is an effort to better understand the role of trust as a mediator between organizational justice and organizational performance of the IT sector employees. Mayer and Gavin (2005) argue that trust and risk has a deep relationship as trust arises in a situation where risk is involved. They defined trust as the willingness of a person to be vulnerable towards the other party. Trust also works as a binding force to keep employees together and increase their output (Gilbert and Tang 1998). IT sector is considered to be one of the fastest growing industries in Pakistan. Government of Pakistan has announced several steps including tax exemptions, to further boost the growth of this sector. Growth and competitiveness in this industry emphasize the effective utilization of human capital by optimizing their output. Since, this sector is providing services to the clients thus; employees' creativity, ambitiousness and quality of output are important factors to gain success. A satisfied employee is the agent for the organizations to progress. For this research cross sectional data i.e. data from individuals at one point in time was collected and analyzed. The proposed model in the second part of this chapter is derived by investigating the impact of organizational justice on organizational performance when trust mediates the relationship.

Part 3 of this chapter enlightens the methodology used in the third research. SmartPLS was used to analyze 300 responses from the bank employees. This research is unique in nature because it takes into consideration the banking industry of a developing nation and explains the importance of trust in mediating the relationship between organizational justice and performance. This research would aid the managers of banks in understanding the factors crucial to the employees’ satisfaction and commitment. The proposed model was built on the theory of Hofstede (1980) cultural dimensions. Several researches conducted on organizational justice and organizational trust has focused on the developed countries where individualistic mind set prevails. This research would open new horizons and conclude the generalizability of the proposed model to a collectivistic state. The present research would explain whether the economic gain is given more importance as compared to social exchange relationship in collectivistic state where people depend on trust for transaction. In a collectivistic state people are tied together with a bond of community, religion, caste and social setup. As the values, culture and norms in individualistic western society differ drastically from the collectivists’ state thus this part of the study would fill the gap by generalizing the phenomenon to a developing country.

There are ethical concerns when accessing research participants for any research. For the present research the management of the selected organizations was approached. Formal consent was taken before the data were to be collected from the employees. The management was requested to cooperate and it was promised that a copy of the results and findings will be shared with them.

Informed consent is considered to be one of the most vital ethical issues while conducting research. Since the data was collected through questionnaires thus for the present research
3. Methodology

Consent was taken from the respondents before they were handed over the questionnaire to participate in the research. Informed consent is the channel through which the rights to autonomy of the participants are protected. Participants were given detail and an introduction regarding the purpose of the study so that they can provide personal veracity in their views. They were also assured of the data anonymity and hence they were requested not to disclose their identity in the questionnaire.

Initially, participants were given a choice that they can be a member of the survey or not. They were told explicitly that filling of the questionnaire is totally voluntarily and no penalties are attached with it. They were also informed that they can quit at the initial stage but once they have filled the questionnaire and submitted then they will not be able to withdraw it. The process of data collection was all transparent yet kept confidential.

Since the data collection is the most sensitive stage of the research thus the data was personally collected by the author. Since inexperienced researchers sometimes manipulates the data which eventually is not able to provide the true picture of the study thus to avoid any such circumstances data was handled with care and consideration.

3.1 Part 1: Level of Trust and Performance

3.1.1 Data Description

To comprehend the relationship between trust and economic performance of countries, variables such as labor force, per capita income, investment, political institutions and human capital were analyzed as part of the theoretical framework. To investigate this relationship the model is estimated using panel data. Data for interpersonal trust and social trust was taken from the WVS and Eurobarometer. The World Values Survey consists of information on national surveys regarding basic values, ethical values, individual beliefs on politics, social relationship, trust, satisfaction and happiness. The data for WVS is collected from the general public. The data collected in WVS is basically a compilation of surveys from more than 80 countries that represents about 85% of the entire world's population. The survey includes countries from high-income countries, low-income countries, countries from the Soviet Union and also a group of courtiers from the Eastern Europe. The data of WVS is available from multiple sources including the Interuniversity Consortium for Political and Social Research and on-line. WVS is the main source of collecting data regarding trust in this research consisting of 64 countries and six waves. Initially, cross country analysis was applied on 64 countries for the period of 1980-2014. Since, the data for the period of 1985-89 was missing in WVS thus the data for this period was drawn from Eurobarometer 25. Eurobarometer is a survey carried out on the request of the European Commission as a cross-national survey program. It was initiated in 1973 as a continuous bi-annual program. The data in Eurobarometer is collected from the republic of the European Union members. This survey is designed to get data from urban, rural and metropolitan areas of EU nationalities. Interviews that were conducted to obtain data were all face to face and in the respective national language. Eurobarometer is used by many academicians and researchers for empirically analyzing data regarding
politics, trust, psychology and anthropology. The data is available online by the European Commission soon after it is compiled. Further, to see the impact of trust on the economic growth of developed and developing countries the 64 countries were divided into developing and developed countries. Initially, an OLS model with robust standard error was applied using the cross-country dataset. Secondly, the pooled panel OLS technique was applied. A non-linear term of trust was also added to observe the impact of change in trust level on the performance of the countries.

### 3.1.2 Model Specification

Following the study of Knack and Keefer (1997), Beugelsdijk, Groot, and Schaik (2004), Berggren, Elinder, and Jordahl (2007) and Roth (2009), the relationship between trust and economic performance is modeled as follows:

\[
GP_{i,t} = \alpha_1 Tr_{i,t} + \alpha_2 Y_{i,t} + \alpha_3 HC_{i,t} + \alpha_4 INV_{i,t} + \alpha_5 Lab_{i,t} + \alpha_6 PINST_{i,t} + \omega_i + \mu_{it}
\]

(3.1)

Where ‘\(i\)’ represents number of cross-sectional units and ‘\(t\)’ represent time (1-7); ‘\(GP\)’ represents growth performance as measured by the average annual income growth rate; ‘Trust’ is the combination of interpersonal and social trust; ‘\(Y\)’ is the income per capita; ‘HC’ is human capital and proxied by average year of schooling; ‘\(INV\)’ is investment; ‘\(Lab\)’ is labor force and ‘\(PINST\)’ represents political institutions; ‘\(\omega\)’ is the country fixed effect and ‘\(\mu\)’ is the stochastic random term.

### 3.1.3 Measures

#### Economic Performance

Economic performance of a country is measured by the growth rate of Real GDP per capita (RGDPPC). Annual growth rate incorporates short-run disturbances thus, to remove the effect of disturbances, the average annual growth rate over a five year period: 1980-84, 1985-89, 1990-94, 1995-99, 2000-04, 2005-09, 2010-14 was used. Sub-period of five years is the shortest time in which it is anticipated that entire business cycle fluctuations will be removed. GDP per capita (1980) is in constant international dollar, adjusted for purchasing power parity which is used to measure the initial income level of each country. Data for both these variables was obtained from World Bank and World Development indicators database.

#### Trust

The primary step in testing the hypothesized model was to identify cross country measure of trust. In the present research, data on trust was collected for 64 countries from six
3. Methodology

waves of World Values Survey (WVS) (1980-2014). Researchers (La Porta et al. 1996; Inglehart et al. 2000; Johnson and Mislin 2012) have also used data from WVS to measure trust. To attain further in-depth analysis, the countries were divided into developed and developing nations. The data on interpersonal and social trust was the main explanatory variable drawn from six waves of World Value Survey (WVS) 1981-84, 1990-94, 1995-99, 2000-04, 2005-09 and 2010-04. Data over the period 1985-89 is missing in WVS. In order to fulfill this gap, data for the period 1986 is taken from Eurobarometer 25. The objective of WVS is to capture changing values and beliefs, and hence, provide a tool for researchers to analyze their impact on economic and political development. Numerous researchers (Inglehart 1990; Knack and Keefer 1997; Paxton 1999; Uslaner 1999; Alesina and La Ferrara 2000; Zak and Knack 2001; Delhey and Newton 2005; Berggren and Jordahl 2006; Roth 2009) used this variable by aggregating the answer, “Generally speaking, would you say that most people can be trusted, or, that you need to be very careful in dealing with people?” The data from developed countries is dominated in the older waves of WVS. However, the number of countries increased with number of waves and more recent waves covers large number of countries ranging from very poor to rich countries.

The basic assumption relating to social trust is that it is stable over time. Bjørnskov (2007) points out that a person’s trust is established at a young age and it is often a reflection of the parents’ trust through socialization. Furthermore, it can be expected that this type of equilibrium is self-enforcing because trust and trustworthiness are highly interconnected. Bjørnskov (2007) also replicated the stability exercise that was introduced by Bornschier and Volken (2002). He found that social trust fluctuates around stability level. The WVS imparts simply a limited data on trust. For present analysis, 64 countries were selected from the six waves of WVS. It is therefore likely to evaluate the score of trust in various countries, from developed to developing nations. The score of trust differ from a low value of 2.6% in Brazil to a high value of 73.7% in Norway.

Investment and Labor

Data for other important variables like investment share of Gross Domestic Product at constant prices; population growth as a proxy for labor is extracted from Penn World Table 8.0 (Feenstra, Inklaar, and Timmer 2015). These variables were constructed by taking their lagged values (1979, 1984, 1989, 1994, 1999, 2004, and 2009) to decrease the problem of endogeneity (Roth 2009). A study conducted by Zak and Knack (2001) proved that a positive correlation exists between trust and investment rate. There study concluded that 1% increase in investment is caused by 7% increased in trust level. This is primarily because in countries where trust prevails have better protection policies of property. This gives the investor a sense of security and eventually investors feel confident to invest in that country. Another reason is that, investors feel safe to make long term investment in a country where trust level is high which may appear very risky in a society where trust level among the members of the society is low. Long term investment has positive effects on the infrastructure industry which boosts the economic progress. Thus, it is concluded that as interpersonal trust increases among the people of a country the cost of doing transaction in that country decreases. This also rises opportunities for mass production.
Human Capital and Political Institutions

Barro and Lee (2013) dataset on average years of schooling of the entire population aged 15 years and above, were used to determine human capital. Data were collected from 1980, 1985, 1990, 1995, 2000, 2005 and 2010. It may be observed from the previous research of Barro and Sala-i-Martin (1995) that the investment done on human capital changes drastically across nations. Some countries like Indonesia spend less than 3% of their GDP on education and some of the developing countries spend more than 10% of their GDP on education. Research conducted by Barro (1997) proves that there exists a positive correlation between human capital investment and economic growth (Aghion and Howitt 1998). Economists have long given preference to the role of people in the process of production. Political institutions are measured by the Polity 2 index, taken from the Polity IV database.

3.1.4 Results and Discussion

Descriptive Statistics

Table 3.1: Correlation Matrix for Trust Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Interpersonal trust</th>
<th>Trust on family</th>
<th>Trust on neighbors</th>
<th>Trust on people we know</th>
<th>Trust on judiciary</th>
<th>Trust on parliament</th>
<th>Trust on civil service</th>
<th>Trust on companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interpersonal trust</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust on family</td>
<td>0.030</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust on neighbors</td>
<td>0.156</td>
<td>0.459</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust on people we know</td>
<td>0.355</td>
<td>0.446</td>
<td>0.581</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust on judiciary</td>
<td>0.037</td>
<td>0.093</td>
<td>0.219</td>
<td>-0.004</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust on parliament</td>
<td>-0.041</td>
<td>-0.062</td>
<td>0.242</td>
<td>-0.045</td>
<td>0.576</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust on civil service</td>
<td>-0.113</td>
<td>-0.175</td>
<td>0.089</td>
<td>-0.139</td>
<td>0.569</td>
<td>0.760</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Trust on companies</td>
<td>-0.344</td>
<td>-0.232</td>
<td>0.066</td>
<td>-0.253</td>
<td>0.376</td>
<td>0.506</td>
<td>0.737</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Table 3.1 shows the correlation matrix for trust measures pertaining to 64 countries taken from WVS/Europe Values Surveys. Although social trust is positively correlated with other forms of personal trust, the coefficients are not perfect. For example, interpersonal
3. Methodology

Trust and trust in members of the family are correlated only moderately, having a 0.030 correlation coefficient. This result is confirmed in a recent paper by Algan and Cahuc (2013) using trust game in a sample of 68 countries. They found that people having strong family relations show a lower level of trust on strangers than people with weak family relations and argued that this relationship is casual.

Figure 3.1 shows the association between social trust and log of GDP per capita (1980). There is positive association between social trust and performance and it suggests that low level of trust in countries like Philippines and Ghana is followed by low level of performance whereas the high trust score in countries like Denmark and Sweden is followed by high performance. China and Indonesia appears to be outliers, which may be due to the unreliable trust score in these countries.

![Social Trust and log of GDP Per Capita (LNGDPPC) (1980)](image)

**Cross-Country Analysis**

In the first step of the analysis, an OLS model with robust standard error was applied using the cross-country dataset. Average growth rate of Real GDP per capita for the period 1980-2014 was used as a dependent variable. Cross-country regression results are reported in Table 3.2. The results from the table show that all variables have expected signs. Results depicted a positive significant effect of social trust on economic performance. This result supports the empirical results of Knack and Keefer (1997), Roth (2009), Algan and Cahuc (2013). The coefficient of initial income measure by GDPPC 1980 is
significant at 1% level and also negative. From this result it is concluded that all countries that were selected have a trend to converge to their balanced growth path. The estimated coefficient of investment as share of Gross Domestic Product is 0.084 which represents that when there is an increase of 1% in investment, the RGDPPC growth rate increases by 0.084%, over the period 1980-2014 in 64 chosen countries. The coefficient of education also shows a positive impact on economic performance having a value of 0.184%. Similarly, the coefficients of population growth and political institutions have a positive but insignificant impact on economic growth in the observed countries. Second column of Table 3.2 describes the curvilinear relationship between social trust and economic performance. Interestingly, the square term of social trust is negative and significant at 5% level. These results implied that an increase in trust enhances economic performance in countries that initially have low level of trust and decrease the path of economic performance in those countries that have attained a considerable level of social trust (Roth 2009). In Figure 3.2, the partial regression plot for the sample i.e. 64 countries is represented, showing relationship between trust and economic performance. The positive impact decreases as the trust level rises and approaches zero when the indicator takes on a mid-range of 40.

Table 3.2: Interpersonal Trust and Economic Performance: Cross-Country Results

(Independent Variable: Real GDP Per Capita Growth, 1980-2014)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>T-Statistics</th>
<th>Coefficient</th>
<th>T-Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust</td>
<td>0.023***</td>
<td>1.943</td>
<td>0.078*</td>
<td>2.777</td>
</tr>
<tr>
<td>Trust²</td>
<td>-</td>
<td>-</td>
<td>-0.0008**</td>
<td>-2.058</td>
</tr>
<tr>
<td>GDPPC (1980)</td>
<td>-0.878*</td>
<td>-4.148</td>
<td>-0.863*</td>
<td>-3.942</td>
</tr>
<tr>
<td>Education</td>
<td>0.184***</td>
<td>1.965</td>
<td>0.157</td>
<td>1.657</td>
</tr>
<tr>
<td>Investment</td>
<td>0.084*</td>
<td>3.692</td>
<td>0.083*</td>
<td>3.629</td>
</tr>
<tr>
<td>Population</td>
<td>0.004</td>
<td>1.368</td>
<td>0.003</td>
<td>1.211</td>
</tr>
<tr>
<td>Political Institutions</td>
<td>0.018</td>
<td>0.409</td>
<td>0.023</td>
<td>0.534</td>
</tr>
<tr>
<td>Intercept</td>
<td>5.047*</td>
<td>4.990</td>
<td>4.417*</td>
<td>3.989</td>
</tr>
<tr>
<td>R²</td>
<td>0.471</td>
<td></td>
<td>0.487</td>
<td></td>
</tr>
<tr>
<td>F – statistic</td>
<td>7.24*</td>
<td></td>
<td>7.19*</td>
<td></td>
</tr>
<tr>
<td>No. of cross-sections</td>
<td>64</td>
<td></td>
<td>64</td>
<td></td>
</tr>
</tbody>
</table>

Note: T-statistics are calculated using White heteroscedasticity corrected Standard Errors. *, ** and *** represent significance of coefficients at 10%, 5% and 1% level respectively.
3. Methodology

Figure 3.2: Regression Plot for 64 Countries-Trust and Economic Performance (1980-2014)

Pooled Panel Analysis

In the second step of estimation, the pooled panel OLS technique was applied. In order to obtain more reliable estimates Driscoll and Kraay (1998) corrected Standard Errors was used. Using the pooled panel OLS estimation procedure, Table 3.3 replicates the results obtained from cross-country regression and the result of most empirical research. The effect of social trust on economic performance was found to be positive and significant. ‘Average years of schooling’, was used as a proxy of human capital and was found to be a significant factor in stimulating economic growth. The positive association but insignificant relationship was found between investment and economic growth. The effect of population and political institutions on economic performance was found to be negative in selected panel of 64 countries. Furthermore, the coefficient of initial income highlighted negative and significant effect on economic performance. The value of $R^2$ described 50% of the variation in economic growth. Developed countries follow an economic path which is quite different from developing countries in the sample. Table 3.3 also illustrates the results of developing and developed countries. In developed countries sample, social trust has insignificant effect on economic growth. With respect to other variables, investment and population appeared to be the leading indicators in explaining economic performance of developed countries. In the developing countries sample, the effect of social trust on economic performance is found to be positive and significant. This result explains that social trust plays a significant role in increasing the economic performance of developing countries. One interesting result found in developing countries sample is the negative effect of investment on the performance. This may be due
to the fact that in developing countries the role of public investment is more significant which is mostly on non-productive investment projects. The value of $R^2$ also increases from 0.29 to 0.33 from developed to developing countries sample due to greater number of observations in developing countries panel.

Table 3.3: Interpersonal Trust and Economic Performance: Pooled OLS Results (Dependent Variable: Real GDP Per Capita Growth, 1980-2014)

<table>
<thead>
<tr>
<th>Variables</th>
<th>All</th>
<th>Developed Countries</th>
<th>Developing Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>T-Statistics</td>
<td>Coefficient</td>
</tr>
<tr>
<td>Trust</td>
<td>0.024**</td>
<td>2.550</td>
<td>0.004</td>
</tr>
<tr>
<td>GDPPC (1980)</td>
<td>-0.595***</td>
<td>-1.820</td>
<td>-1.448*</td>
</tr>
<tr>
<td>Education</td>
<td>0.115***</td>
<td>1.965</td>
<td>0.004</td>
</tr>
<tr>
<td>Investment</td>
<td>0.031</td>
<td>1.112</td>
<td>0.065*</td>
</tr>
<tr>
<td>Population</td>
<td>-0.022*</td>
<td>2.678</td>
<td>0.018***</td>
</tr>
<tr>
<td>Political Institutions</td>
<td>-0.049**</td>
<td>-2.208</td>
<td>0.014</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.502</td>
<td></td>
<td>0.297</td>
</tr>
<tr>
<td>F – Statistics</td>
<td>118.2*</td>
<td></td>
<td>86.79*</td>
</tr>
<tr>
<td>No. of cross-sections</td>
<td>64</td>
<td></td>
<td>25</td>
</tr>
</tbody>
</table>

Note: T-statistics are calculated using Driscoll and Kraay corrected Standard Errors. *, ** and *** represent significance of coefficients at 10%, 5% and 1% level respectively.

Table 3.4 describes inverted U-shaped relationship between trust and performance in developed countries. These estimates imply that an increase in level of trust enhances economic performance, initially, but as trust continues to increase, the level of economic performance attenuates (see Figure 3.3 for detail). On the contrary, in developing countries, the results show a U-shaped path between trust and country growth performance. These results imply that in low trust countries, increase in social trust triggers economic performance. However, the positive influence decreases as the level of trust continues to rise (see Figure 3.4 for detail). The model is able to explain 30% variation in economic performance in developed countries and 38% in developing countries.
3. Methodology

Figure 3.3: Regression Plot for 25 Developed Countries Trust and Economic Performance (1980-2014)

Table 3.4: Interpersonal Trust and Economic Performance: Pooled OLS Results (Dependent Variable: Real GDP Per Capita Growth, 1980-2014)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>T-Statistics</th>
<th>Coefficient</th>
<th>T-Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust</td>
<td>0.055</td>
<td>1.665</td>
<td>-0.257*</td>
<td>-4.030</td>
</tr>
<tr>
<td>Trust$^2$</td>
<td>-0.0006***</td>
<td>-1.735</td>
<td>-0.005*</td>
<td>4.955</td>
</tr>
<tr>
<td>GDPPC (1980)</td>
<td>-1.503*</td>
<td>-6.492</td>
<td>-0.773**</td>
<td>-2.315</td>
</tr>
<tr>
<td>Education</td>
<td>0.069*</td>
<td>3.040</td>
<td>0.056</td>
<td>0.297</td>
</tr>
<tr>
<td>Investment</td>
<td>-0.011</td>
<td>-0.126</td>
<td>-0.077**</td>
<td>-2.308</td>
</tr>
<tr>
<td>Population</td>
<td>0.018</td>
<td>1.622</td>
<td>-0.286</td>
<td>1.443</td>
</tr>
<tr>
<td>Political Institutions</td>
<td>0.025</td>
<td>0.429</td>
<td>-0.011</td>
<td>-0.413</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.303</td>
<td></td>
<td>0.378</td>
<td></td>
</tr>
<tr>
<td>F – statistic</td>
<td>65.23*</td>
<td></td>
<td>149.3*</td>
<td></td>
</tr>
<tr>
<td>No. of cross-sections</td>
<td>25</td>
<td></td>
<td>39</td>
<td></td>
</tr>
</tbody>
</table>

Note: T-statistics are calculated using heteroscedasticity corrected Standard Errors. *, ** and *** represent significance of coefficients at 10%, 5% and 1% level respectively.
3.1. Part 1: Level of Trust and Performance

Figure 3.4: Regression Plot for 39 Developing Countries Trust and Economic Performance (1980-2014)

Panel Analysis

In order to investigate the effect of social trust on economic performance, the model is estimated using panel data techniques. The standard methods used for panel estimation are fixed effects or random effects. The major distinction between fixed effect and random effect models is that in random effect models intercept term is not constant but there is a random parameter which is a function of mean value plus error term. Further, fixed effect models assume that unobserved country specific effects are correlated with observed explanatory variables while in random effect models unobserved country specific effects are strictly uncorrelated with observed explanatory variables. The choice of model between fixed effect and random effect is made by applying the Hausman test. According to this test, if the null hypothesis cannot be rejected, random effect model is efficient and consistent; otherwise, fixed effect model is given preference over random effect model. Table 3.5 presents the results of linear regression model using panel data. According to author’s knowledge, there is no study that applied the panel data analysis technique on global panel and sub-panels of developed and developing countries. A robust estimation technique is used in order to overcome the problem of heteroscedasticity. In the first step, fixed and random effect models are applied on global unbalanced panel covering 64 countries. The results of fixed effect model support only the findings of Roth (2009) and contradict to the previous empirical findings (Heliwell 1996; Knack and Keefer 1997; Whiteley 2000; Zak and Knack 2001; Beugelsdijk, Groot, and Schaik 2004). All other variables used in the research have expected sign.
3. Methodology

Table 3.5: Interpersonal Trust and Economic Performance: Pooled OLS Results
(\textbf{Dependent Variable}: Real GDP Per Capita Growth, 1980-2014)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Fixed Effect Robust Estimates</th>
<th>Random Effect Robust Estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>T-Statistics</td>
</tr>
<tr>
<td>Trust</td>
<td>-0.051</td>
<td>-1.667</td>
</tr>
<tr>
<td>GDPPC (1980)</td>
<td>-1.559</td>
<td>-1.385</td>
</tr>
<tr>
<td>Education</td>
<td>0.535</td>
<td>1.476</td>
</tr>
<tr>
<td>Investment</td>
<td>0.065*</td>
<td>2.136</td>
</tr>
<tr>
<td>Population</td>
<td>-0.857***</td>
<td>1.689</td>
</tr>
<tr>
<td>Political Institutions</td>
<td>0.053</td>
<td>0.537</td>
</tr>
<tr>
<td>Intercept</td>
<td>15.68</td>
<td>2.007</td>
</tr>
</tbody>
</table>

\( R^2 \) 0.288 0.256
F – statistic 3.83** 6.77*
No. of cross-sections 64 64

Note: T-statistics are calculated using White heteroscedasticity corrected Standard Errors. *, ** and *** represent significance of coefficients at 10%, 5% and 1% level respectively. Value in parenthesis is P-value.

The results of random effect model replicate the cross-country and pooled OLS findings. It indicates the positive effect of social trust on economic performance. Table 3.6 reports the results of social trust-growth relationship in the case of developed and developing countries. The results of fixed effect model describe the negative effect of social trust on economic performance in developing and developed countries. However, the empirical results of random effect model support positive relationship between social trust and economic performance.

Table 3.6: Interpersonal Trust and Economic Performance: Pooled OLS Results
(\textbf{Dependent Variable}: Real GDP Per Capita Growth, 1980-2014)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Developed countries</th>
<th>Developed countries</th>
<th>Developed countries</th>
<th>Developed countries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>T-Statistics</td>
<td>Coefficient</td>
<td>T-Statistics</td>
</tr>
<tr>
<td>Trust</td>
<td>-0.022</td>
<td>-0.612</td>
<td>-0.039</td>
<td>-0.752</td>
</tr>
<tr>
<td>GDPPC (1980)</td>
<td>-1.851***</td>
<td>-1.838</td>
<td>-1.500</td>
<td>-0.994</td>
</tr>
<tr>
<td>Education</td>
<td>-0.107</td>
<td>-0.456</td>
<td>1.667**</td>
<td>2.548</td>
</tr>
<tr>
<td>Investment</td>
<td>0.026</td>
<td>0.413</td>
<td>-0.072**</td>
<td>-2.090</td>
</tr>
<tr>
<td>Population</td>
<td>-0.272</td>
<td>-0.684</td>
<td>-0.286</td>
<td>-0.256</td>
</tr>
<tr>
<td>Political Institution</td>
<td>0.120**</td>
<td>2.321</td>
<td>0.002</td>
<td>0.015</td>
</tr>
<tr>
<td>Intercept</td>
<td>22.92*</td>
<td>2.785</td>
<td>4.464</td>
<td>0.492</td>
</tr>
</tbody>
</table>

\( R^2 \) 0.217 0.332 0.282 0.297
F – Statistics 6.38* 4.23* 8.79* 6.36*
No. of cross-sections 25 39 25 39
3.1. Part 1: Level of Trust and Performance

Hausman Test
11.90\(^1\) (0.064) 32.75\(^2\) (0.000)

Note: \(^1\) Hausman test on developed countries. \(^2\) Hausman test on developing countries. T-statistics are calculated using White heteroscedasticity corrected Standard Errors. *, ** and *** represent significance of coefficients at 10%, 5% and 1% level respectively. Values in parenthesis are P-values.

Interestingly, the relationship between trust and economic performance was found to be inverse U-shaped in developed countries and U-shaped in developing countries. In countries that have higher level of trust, decrease in trust seems to have a positive effect on economic performance. Whereas countries having lower level of trust, an increase in trust seems to generate positive effect on economic performance (see Table 3.7).

Table 3.7: Interpersonal Trust and Economic Performance: Panel Results (Dependent Variable: Real GDP Per Capita Growth, 1980-2014)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Fixed Effect Robust Estimates</th>
<th>Random Effect Robust Estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Developed countries</td>
<td>Developing countries</td>
</tr>
<tr>
<td>Trust</td>
<td>Coefficient</td>
<td>T-Statistics</td>
</tr>
<tr>
<td>Trust(^2)</td>
<td>-0.0007</td>
<td>-0.604</td>
</tr>
<tr>
<td>GDPPC (1980)</td>
<td>-1.794***</td>
<td>-1.767</td>
</tr>
<tr>
<td>Education</td>
<td>-0.022</td>
<td>-0.339</td>
</tr>
<tr>
<td>Investment</td>
<td>-0.092</td>
<td>-0.429</td>
</tr>
<tr>
<td>Population</td>
<td>-0.314</td>
<td>-0.816</td>
</tr>
<tr>
<td>Political</td>
<td>-0.019</td>
<td>-0.339</td>
</tr>
<tr>
<td>Institution</td>
<td>0.118**</td>
<td>2.387</td>
</tr>
<tr>
<td>Intercept</td>
<td>21.32**</td>
<td>2.278</td>
</tr>
<tr>
<td>R(^2)</td>
<td>0.219</td>
<td>0.333</td>
</tr>
<tr>
<td>No of cross-</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Hausman Test
11.91\(^1\) (0.103) 32.04\(^2\) (0.000)

Note: \(^1\) Hausman test on developed countries. \(^2\) Hausman test on developing countries.

On the basis of these findings, it may be concluded that social trust works as a strong binding in holding societies together and enhancing economic performance. It may not be possible, especially in developing countries, to gain a better pace of economic growth without a higher level of social trust. However, economic performance may be hampered with an increase in the level of trust for those countries who have already achieved a high level of trust. This may point to the need of re-evaluation of the past research where trust and economic performance is reported to be correlated in linear way.
Another important decision which international firms have to make while selecting a country for investment is the entry mode choice (Kumar and Subramaniam 1997; Brouthers and Hennart 2007). Entry mode is an important strategic choice that firms make when conducting foreign direct investments. Organizations still have to face difficulty in choosing the mode to enter a country (Dunning 1998). Bhardwaj, Joerg, and Beamish (2007) empirically proved that countries with low level of uncertainty avoidance and high level of trust are more attractive destinations for foreign firms. Globerman and Shapiro (2002, 2003) in their research also suggested that FDI’s are based on relationship with the countries. They further elaborated that for investors an important determinant of selecting a country for investment is trust (Child 2001). This is in line with several other research findings that entry mode affects the future investments (i.e., Li and Guisinger 1991; Woodcock, Beamish, and Makino 1994; Li 1995). Since, the primary purpose of any investment is to gain maximum benefit out of it; international investors have to face tremendous risk while making decision regarding international business destinations. This research can provide guidelines while making strategic decisions to enter in a country.

The study points to examine the relationship between trust and performance of the countries. A positive relationship between trust and economic growth is considered to be of common knowledge and generally acceptable. This part of the research investigates and questions this relationship. The focus is on the resultant effect of economic performance when the trust level changes. To measure the change in performance, data for trust was drawn from WVS and Eurobarometer. Countries were divided into developing and developed countries and 64 countries were taken into consideration to apply the fixed-effect estimation. A non-linear term of trust was added to measure the effect of change in the economic performance. With the help of pooled panel OLS model, a negative relationship between trust and growth among the developed countries was observed. However, for developing countries a curvilinear relationship was detected. Following are also some of the important finings of the study.

Education plays an important role in the progress of a country. Fitzgerald (2004) also analyzed this relationship and came to a conclusion that education is a key for economies to prosper. Economists also stressed that education is an anti-poverty strategy and a road path for the economies to develop. Following this strategy a number of countries like Germany, United Kingdom, and Sweden have set targets for achieving education standards. However, education may not be the only fact that is to be considered when mapping its effect on the economic performance. Developing countries have better transportation facilities, many hospitals to provide health benefits. Thus one cannot say that spending more and more on education can lead to the economic development. In general, economic performance and education is likely to be positively linked with each other. When the workforce is educated, organizations get the advantage to utilize economic opportunities hence leading to better economic performance.

It was also concluded from the empirical analysis that population growth and political institutions may have a positive but insignificant impact on the economic growth of the countries selected. Impact of growth in population on economic development has been an important topic of discussion among economist and social scientists. The results drawn about its impact varied from positive to negative. One school of thought simply states that more the number of people who have to share a piece of cake the less would be the share
each would get. On the contrary, the other perspective is that larger the population size the better they are to defend the country and as a whole larger population contribute towards better social welfare (Nerlove, Razin, and Sadka 1987). Similarly, very few authors would disagree with the fact that protection of property of the masses and contractual rights are vital.

Human capital was also found to have a significant factor in stimulating economic growth (Pelimescu 2015). Many other researchers also concluded that human capital is one of the important factors in economic growth (Pelimescu 2015; De la Fuente and Doménech 2006). Researchers have not limited the definition of human capital to knowledge. Health is also captured as an integral factor that increases economic performance (Bloom and Canning 2003). Economists also believe that even less but gradual investment in education also leads to development in countries.

Another important conclusion drawn from the results is the negative effect of investment on the performance of the developing countries. Generally speaking, when economies invest more (either public or private investment) the capacity increases to produce more at a less cost. Hence, greater productivity gives positive signals to progress and growth. In this part of the research the negative effect may be due to the fact that in developing countries the role of public investment is more significant which is mostly on non-productive investment projects.

This part of the study provided a different perspective on the relationship between trust and economic performance. Previous researches focused on the aspect that trust is important for economic growth however when divided the countries into developed and developing countries some key findings were discovered. Developing countries follow a path that is different from that of developed countries. When a squared term of trust is added to the equation, social trust illustrated an insignificant effect on economic growth in developed countries. A significant effect was found among the social trust and economic progress in the developing countries. This study would be helpful for the policy makers of the countries to understand the importance in investing in the trust building policies.

3.2 Part 2: Role of Justice and Trust in Organizational Performance

3.2.1 Data Description

The main aim of this research was to discover the impact of organizational justice on organizational performance when organizational trust mediates this relationship. This research was inclined towards explanatory research which attempted to connect variables in a cause and effect relationship through quantitative analysis. The research design adopted was cross-sectional, as the data were collected from the software industry at a specific point in time. The target population for this research consisted of both male and female employees working at middle to upper management positions in various software organizations in Punjab, Pakistan.
In recent years, the software industry in developing countries has received a lot of attention because of two reasons. Firstly, software industry is viewed as a possible channel through which growth can be achieved and social economic development can be attained. Secondly, developing countries are significantly contributing to the global emergent need of outsourcing software products and services. Researchers have considered software industry to be a source and a tool for achieving economic progress in a country. Harindranath and Liebnau (1995) identified that India used its software industry to bring a change in their socio-economic development. Similarly, the importance of this industry is highlighted by Kamel (2005) who states that the IT industry has triggered the cultural development of a developing country like Egypt. All these studies address the vital position that the software industry holds for the progress of a nation. Pakistan has an estimated population of 195 million (United Nations, 2016). Being a developing country, Pakistan has to face a lot of problems including a high inflation rate among all Asian countries. The literacy rate, according to Pakistan census conducted in 2012, was only 56% and hardly 2% of the total population is able to enroll in the post graduate studies. Due to lack of resources the government is also facing problems in providing training and infrastructure to people. With all these hurdles still the software industry of Pakistan has progressed over the last few years and this sector is heavily contributing towards the exports. This sector has undergone a significant transformation. Several firms have obtained software export projects and many more are adopting the same strategy. Since 2000, Government has been very supportive towards this sector and has announced integrated policy on Information technology to harness national capacity building.

The research strategy incorporated was to survey the sample using a structured-questionnaire. The technique used for sampling was simple random probability sampling. Before distributing the questionnaire a pilot study was undertaken. Pilot testing assisted in evaluating the questionnaire for mistakes. It was also a source through which the researcher got recommendations before the final data collection started (Jenkins and Dillman 1995; Van Dijk, Cremer, and Handgraaf 2004). Thus, for this part of the research 30 questionnaires were sent to software engineers in software houses to check the adequacy of the research instruments. Non-experimental design was used to gather data.

Questionnaires were handed to the respondents in person. Prior to the distribution of the questionnaire, organizations were requested for permission and only then the questionnaires were distributed. The researcher took consent from the CEO of the firms in which the questionnaires were to be distributed. The purpose of the research was explained which was to investigate the relationship of organizational justice on organizational performance while trust mediates the relationship. Some of the CEO’s in the organizations were very cooperative and interested in knowing the findings of the research. They supported the survey by designating a manager to take charge of the research work.

One of the most receptive problems in any research is the way in which the questionnaires are filled. Researchers try to control bias but this issue is often faced when the data collection deals with sensitive topics (Kalton 1983; Bradburn, Sudman, and Wansink 2004). Social desirability is a factor that enables employees to answer questions in a manner that is favorable for them, which may distort the results. Data regarding sensitive issues were involved thus the following steps were taken to reduce the bias. Firstly, cover letter was attached with the questionnaire assuring that the data would be kept anonymous.
Secondly, the employees were assured that this questionnaire is used for research purpose. Thirdly, employees were not asked for their identity.

The respondents were also requested to give their own consent before the questionnaire was distributed. The researcher left the questionnaire with the respondents after explaining the purpose and ensuring the confidentiality of the survey. This was done because the questionnaire was comprehensive and required sometime to be completed. A sample of 400 employees was selected for this part of the study. Out of 400 questionnaires that were distributed, 350 complete responses were received and used for data analysis. Hence, the response rate was 87.5%. The technique used for sampling was random probability sampling. Sampling was cautiously done as it is the initial point in obtaining reliable responses from the participants of the study. For this part of the study, simple random sampling approach was used since data were collected from two departments consisting of quality assurance and software engineering department and the respondents were not very difficult to access. This technique was given importance since the validity of the findings is not compromised if the respondents are randomly selected.

A small sample size may not show the true picture of the situation, resulting in invalid outcomes (Sekaran and Bougie 2010). Hence, a sufficient sample size was drawn. As suggested by Bagozzi, Yi, and Nassen (1998) expected variation in the data was considered since, the more variation in the data a larger sample size is required to attain accuracy. The sample size is dependent on the complexity of the model and since SEM is a technique that requires a large sample size thus it is recommend by Kline (2005) and Hair et al. (2010) to have a sample size of no less than 200. Keeping in view, the current research a sample of 400 employees were selected. All the respondents were required to answer questions related to the organization that they are working for. In the questions pertaining to non-financial performance measure, respondents were required to answer questions based on their knowledge and opinion. For the purpose of measurement, the three latent constructs were divided into concepts and each concept was tested. After data collection all the data was entered in SPSS software and then SEM was used to test the relationship between the latent variables (Hoyle 1995). SEM is preferred over regression since it allows testing a set of regression equations simultaneously. This technique was applied to test the relationship between the selected variables since SEM has multiple advantages over the hierarchical regression approach (Cheung and Lau 2008). Hoyle and Smith (1994) also recommended this approach and narrated that measurement error and uncertain causal conditions can be controlled while examining the relationships among the variables. Amos-21(Analysis of Moment Structure) was applied to test the hypothesis presented in the model. The results of the research intend to measure the direct and indirect effect of organizational justice on organizational performance in the software firms of Pakistan. Since, the questionnaire had sensitive data therefore anonymity was assured to the respondents. The respondents were given an option that they could withdraw from participating in the research before the questionnaire was submitted. It was further elaborated that once the questionnaire was submitted then they would not be able to withdraw the submitted questionnaire.

Survey method was used to collect data for this part of the study. The survey instrument was constructed with care and concern as recommended by Hair et al. (2010). Organizational behavior and human resource management are complex fields of study thus,
3. Methodology

It is recommended that a questionnaire must be developed only after reviewing comprehensive literature and should be reviewed by researchers before distributing it to the respondents (Hair et al. 2010). The questionnaire was developed following the suggestions of Andrews (1984) and Dillman (2007). Following steps were considered to address the reliability and the validity of the instrument used for the present research. Firstly, all the measurements of the constructs were adapted from existing literature relevant to the topic. Secondly, only those instruments were considered that had appropriate and proven reliability and validity. Thirdly, all the items selected were ensured for consistency with the construct operationalization.

The questionnaire consisted of two sections; the first section consisted of questions pertaining to the demographical aspects of the target sample. The second section consisted of measurement scales used to measure organizational justice, organizational trust and organizational performance. As recommended by Jenkins and Dillman (1995), the questionnaire was arranged in a well ordered form and numbers of pages were restricted to fewer pages as long questionnaires create monotonous for the respondents which may result in bias answers (Zikmund and Babin 2007). The questionnaire was developed using plain language to increase the response rate and understanding. The questionnaire was pretested on 30 respondents as recommended by Sekaran and Bougie (2010). The feedback of the pilot study indicated that the questionnaire was clear and well understood by the respondents and consequently actual data collection started.

Since the variables under study were not directly observable thus SEM was used to explain the relationship between justice and performance. This approach was used since it has substantial advantages over other techniques. Researchers use this technique since it provides them with greater flexibility to model the relationships among dependent and independent variables. One of the benefits of this technique is that it reduces the number of observed variables into smaller latent variables by investigating the co-variation among the observed variables. The path analysis requires a single indicator to represent a construct but for a complex model involving multiple unobserved variables it would have been impractical to use simple regression. Ullman (2001) describes this technique as a combination of multiple regression analysis and exploratory factor analysis.

3.2.2 Measures

Operationalization of construct means to measure those variables that are quantifiable only after observation. Operationalization is done as hypothesis needs to be measurable and quantifiable. It is the first step in defining the construct. Second step requires that the respondents are provided with a scale to express their opinion. Likert scale is considered to be the most commonly used and easy to comprehend scale in social sciences (Gay, Mills, and Airasian 2009). The second part of the study uses a likert scale with 5 points where 1 represents strongly agree and 5 represents strongly disagree.
Organizational Justice

In this part of the study the construct of organizational justice is divided into three measurable components: distributive justice, procedural justice and interactional justice. To measure distributive justice 5 items were adopted from the instrument developed by Price and Mueller (1986). Distributive Justice is referred to as the fairness in the distribution and allocation of rewards and incentives (Loi, Hang-Yue, and Foley 2006). Instrument developed by Moorman (1991) was used to measure procedural justice including 6 items. Procedural justice in this part of the research is referred to as the fairness in process and procedures through which the incentives and rewards are being distributed (Loi, Hang-Yue, and Foley 2006). For interactional justice, 6 items were shortlisted from the instrument developed by Moorman (1991). As defined by Bies and Moag (1986) interactional justice is the treatment that a worker receives or the interaction that employees have with the employers during the process when major decisions are being made by the organizations. For this part of the study, the cronbach value of organizational justice was 0.832. The questionnaire consisted of seventeen items on justice perception.

1. I am rewarded fairly by my organization, considering the responsibility assigned to me.
2. I am rewarded fairly by my organization, according to the amount of experience I had.
3. My organization has rewarded me fairly, taking into account my education and training.
4. I am rewarded fairly for the amount of effort I put forth in work.
5. I am rewarded fairly for the stresses and strains of my job.
6. The procedures that my organization adopts are accurate in collecting information for making decisions.
7. My organization provides opportunity to appeal or challenge decisions against the procedures adopted.
8. Standards are followed in my organization so that decisions are made with consistency.
9. Procedures are made in a manner that all affected by a decision are heard in my organization.
10. In my organization, opportunity is provided to give useful feedback regarding a decision and its implementation.
11. My organization procedures allow and entertain the requests for clarification or additional information about the decision.
12. My manager considers my viewpoint during the process of forming a decision.
13. My manager suppresses personal biases while communicating and making decisions.
3. Methodology

14. My manager provides me with timely feedback on my performance about decision and implications.

15. My manager treats me with kindness and consideration.

16. My manager shows concerns for my rights as an employee.

17. My manager takes steps to deal with me in a truthful manner.

Organizational Trust

Organizational trust is an important component for organizations to function properly. Both parties involved in a trust based relationship have to encounter risk. Transactions changes into long term relationship if it is fulfilled properly. On the contrary, if a transaction is not fulfilled honestly then many negative outcomes are expected (Mishra 1996). Trust is also the basic reason for employees to let go of their short-term economic gains for future returns since, workers believe that the firms will reciprocate positively in the future. From the employers’ perspective, it is evident that firms cannot gain long term sustainability of the employees without gaining their trust. In the second part of the study, trust is considered to be the willingness of a party to be vulnerable (Schoorman, Mayer, and Davis 2007). In literature, three widely used survey instruments developed by the researchers (Nyhan and Marlowe 1997; Mayer and Davis 1999; Schoorman and Ballinger 2006) are used to measure organizational trust. To measure trust, 6 items were selected from the questionnaire developed by Schoorman and Ballinger (2006). This instrument is recommended to be valid and reliable having cronbach alpha = 0.84. Slight changes were made to the original items, keeping in view the organizational context and the need of the present research. The response scale ranged from strongly degree (5) to strongly agree (1). Following are some of the items selected and included in the questionnaire.

1. My organization keeps my interests in mind when making decisions.

2. I would be willing to let my organization have complete control over my future in this department.

3. If my organization asks why a problem occurred, I would speak freely even if I were partly to blame.

4. I feel comfortable being creative because my organization understands that sometimes creative solutions do not work.

5. It is important for me to have a good way to keep an eye on my organization.

6. Increasing my vulnerability to criticism by my organization would be a mistake.

Organizational Performance

From organizational point of view, it is very important to measure performance (Hensley and Dobie 2005). For this part of the research the construct organizational performance is measured by non-financial indicators. Subjective evaluation technique was used
to measure the organizational performance. Dimensions that measured organizational performance were customer loyalty, sales growth, profitability and return on investment. Subjective measures were preferred due to the difficulties and problems used in accounting methods (Dechow, Sloan, and Sweeney 1995). Many social researchers (Powell and Dent-Micallef 1997; Spanos and Lioukas 2001; Immyxai and Takahashi 2010) argue that financial data is unreliable and manipulated for certain purpose hence, subjective data is considered to be more reliable. Several studies indicate a strong correlation between subjective and objective measures of performance (Wall et al. 2004; Song et al. 2005). Another benefit of using the subjective data was that primary data from the respondents were gathered rather than relying on the secondary data or content analysis only (Dawes 1999). Researchers in social sciences have used subjective measures to measure organizational performance (Powell 1992; Powell and Dent-Micallef 1997; Spanos and Lioukas 2001; Camps and Luna-Arocas 2009; Morabito, Themistocleous, and Serrano 2010). In this part of the study, items proposed by Tippins and Sohi (2003) were used to measure organizational performance. The validity and reliability of the above mentioned instrument was ensured. Respondents were requested to give answers regarding their firm’s performance during last three years, as compared to their firm’s direct competitors.

1. How would you compare your organization’s performance over the past three years to that of other organization’s in relation to growth in sales.

2. How would you compare your organization’s performance over the past three years to that of other organization’s in relation to loyalty in customer.

3. How would you compare your organization’s performance over the past three years to that of other organization’s in relation to profitability.

4. How would you compare your organization’s performance over the past three years to that of other organizations in relation to return on investment?

3.2.3 Results and Discussion

Descriptive Statistics

The descriptive statistics presents the demographic characteristics of the participants for this part of the research. Data were collected from 400 participants, who were employees of software firms of Punjab. Among 400 employees, 350 participants filled and completed the questionnaire. Thus, data were analyzed using 350 employees. Table 3.8 depicts the frequency analysis and percentages pertaining to the demographic data. Mostly male members participated in the survey. Generally, in software organizations more male employees were observed than females. This industry requires late hours or odd hours thus this may be one of the reason why less number of female workers are working in this industry. Software organizations usually have a young workforce as compared to other organizations. Same was depicted in the data that were collected. A large number of employees were in between the age bracket of 25-30 years and held a bachelors degree. As far as the years of service with the same organization was concerned, the majority of the respondents only joined the organization less than four years ago and only a few
employees continued with the organization for more than 6 years. Data were collected from two departments i.e. quality assurance department and software development. A balanced data were collected among the two departmental employees. The demographic data indicated that the turnover ratio is high in this industry since, the average tenure of employees staying with the same organization is very less.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>217</td>
<td>62</td>
</tr>
<tr>
<td>Female</td>
<td>133</td>
<td>38</td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18 to 24 years</td>
<td>30</td>
<td>9</td>
</tr>
<tr>
<td>25 to 30 years</td>
<td>150</td>
<td>43</td>
</tr>
<tr>
<td>31 to 35 years</td>
<td>126</td>
<td>36</td>
</tr>
<tr>
<td>above 36 years</td>
<td>44</td>
<td>12</td>
</tr>
<tr>
<td>Marital status</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Married</td>
<td>252</td>
<td>72</td>
</tr>
<tr>
<td>Single</td>
<td>70</td>
<td>20</td>
</tr>
<tr>
<td>Others</td>
<td>28</td>
<td>8</td>
</tr>
<tr>
<td>Educational level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bachelors</td>
<td>287</td>
<td>82</td>
</tr>
<tr>
<td>Master</td>
<td>35</td>
<td>10</td>
</tr>
<tr>
<td>MS and above</td>
<td>28</td>
<td>8</td>
</tr>
<tr>
<td>Income (per month)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rs.45,000 to Rs 55,000</td>
<td>70</td>
<td>20</td>
</tr>
<tr>
<td>Rs 56,000 to Rs.65,000</td>
<td>91</td>
<td>26</td>
</tr>
<tr>
<td>Rs.66,000 to Rs. 75,000</td>
<td>147</td>
<td>42</td>
</tr>
<tr>
<td>Rs. 76,000 and above</td>
<td>42</td>
<td>12</td>
</tr>
<tr>
<td>Average tenure with the</td>
<td></td>
<td></td>
</tr>
<tr>
<td>same organization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 2 years</td>
<td>112</td>
<td>32</td>
</tr>
<tr>
<td>More than 2 and less than 4 years</td>
<td>147</td>
<td>42</td>
</tr>
<tr>
<td>More than 4 years and less than 6 years</td>
<td>56</td>
<td>16</td>
</tr>
<tr>
<td>More than 6 years</td>
<td>35</td>
<td>10</td>
</tr>
<tr>
<td>Department</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality Assurance</td>
<td>147</td>
<td>42</td>
</tr>
<tr>
<td>Software Development</td>
<td>203</td>
<td>58</td>
</tr>
</tbody>
</table>
In the second part of the study, the concepts of organizational justice, organizational trust and performance have been scrutinized. The study evaluates the impacts and relationships of justice on the performance of the organizations. It also explores the effect of trust in mediating the relationship of organizational justice and performance. Structural equation modeling using AMOS was used to analyze the data. Several goodness of fit indices were calculated to assess the fitness of the research model. These indices included the Comparative Fit Index (CFI), Incremental Fit Index (IFI), Goodness of Fit Index (GFI) and the Root Mean Square Error of Approximation (RMSEA). The values of GFI, IFI and CFI are considered to be acceptable if they are greater than 0.90 (Medsker, Williams, and Holahan 1994). The values of GFI, IFI and CFI value demonstrate a good fit of model in case the value is close to 0.95 (Hu and Bentler 1999). For RMSEA the acceptable range is less than 0.05 (Browne and Cudeck 1993). The industry selected for the purpose of data collection was the software industry of Pakistan.

This section of the research validates the measurement of the variables selected by applying confirmatory factor analysis (CFA). This section also addresses the convergent validity, discriminant validity and reliability of the data. CFA serves the purpose of testing the uni-dimensionality of the variable. According to Mueller (1996), CFA evaluates the data set by verifying the factorial structure on the basis of some theoretical ground.

Reliability is the measure of consistency of an instrument. According to Coakes and Steed (2003) there are many methods of calculating reliability. The most commonly used method to calculate the reliability is through Cronbach alpha (Baron and Kenny 1986; Coakes and Steed 2003; Hair et al. 2006). In this research, the internal reliability was assessed by calculating cronbach alpha. Reliability is defined as the extent to which the observed or latent variable measures the true essence of the construct under study (Kirk and Miller 1986). It is the degree to which the findings are consistent over time. It is also the extent to which the results precisely represent the population under observation. A greater reliability value shows a high consistency of data (Hair et al. 2006). A data that is not reliable does not yield valid interpretations (Cook and Beckman 2006). Reliability and validity of data is also important to be noted since, increase in these values decrease the measurement error. A general rule of thumb to calculate the reliability of the data is to have a value of 0.7 or higher (Hair et al. 2010; Bagozzi and Yi 1988). An estimated cronbach alpha value of 0.6 to 0.7 is considered to be an acceptable value if the construct validity has good values. For this part of the study, the values of the cronbach alpha were greater than 0.70 for all the constructs proving, that the instrument was internally consistent.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Constructs</th>
<th>No. of Items</th>
<th>Cronbach’s coefficient alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Organizational Justice</td>
<td>17</td>
<td>0.832</td>
</tr>
<tr>
<td>2</td>
<td>Organizational Trust</td>
<td>6</td>
<td>0.840</td>
</tr>
<tr>
<td>3</td>
<td>Organizational Performance</td>
<td>4</td>
<td>0.791</td>
</tr>
</tbody>
</table>

A research cannot show a true picture of the scenario until and unless the researcher has a complete understanding of what is to be measured and design an appropriate instrument to ensure validity (Hair et al. 2006). Once the data is considered to be reliable
the second important thing is that it should be valid. Polit and Hungler (1999) defined validity or construct validity as the extent of an instrument to determine what is intended to be measured. Validity takes into account the degree to which the observed variables are measured reliably and also if the measure used correctly captured the variable under study (Campbell and Fiske 1959; Abernethy et al. 1999). There are two types of validity, convergent and divergent validity. Phillips (1981) state convergent validity as the test to determine if the theoretical studied constructs are really related. Divergent validity tests if the constructs under study are not similar to each other. This test confirms that the variables under observation are distinct or not. For this part of the research CFA was used to examine the construct validity. In CFA each measurement item loading was checked if it loaded significantly with the construct that it was associated with. The result drawn after the analysis showed that all the loadings fitted well with the data. The values of two items that were below the range of acceptable fitness were then excluded (Bagozzi and Yi 1988). All the factor loadings were significant, proving convergent validity. Standardized coefficients of items ranged from 0.43 to 0.77. Thus, convergent validity is proved stating that the items selected in a scale converge together in respective constructs in the measurement model.

The second step in CFA is to check for discriminant validity. Discriminant validity identifies that the observed variables are distinct in nature and the measurement model is free from redundant items (Bagozzi 1993; Brown 2006). To test discriminant validity, six measurement models were created among the various factor models. Each measurement model was developed using various factor structures beginning with a baseline model. The baseline model fitted well with the data with $\chi^2 = 474.024$. The results for the CFA specified that all relationships between the items and their corresponding latent variables were significant ($\rho < 0.01$). The result of the baseline model indicated a good model fit having. The result of the discriminant validity is presented in Table 3.10. Model 1 combined justice and performance to form another variable and kept trust as constant. Results drawn from Model 1 indicated that the baseline model was better than Model 1. Model 2 separated organizational performance and combined organizational trust and organizational justice. The value of RMSEA in Model 2 was above the acceptable recommended value and hence, indicated a poor fit. Model 3 combined justice and organizational performance and considered trust separately. The values of Model 3 accentuated that the values of CFI and RMSEA were below the acceptable range. Model 4 kept organizational justice as a separate construct and combined organizational trust and organizational performance and Model 5 combined all the constructs i.e. organizational justice, organizational trust and organizational performance together to observe the impact. Again, the values attained from these two models indicated that unity worsens the model fit in each case. This confirmed the discriminant validity of the latent variables.
### Table 3.10: Results of Confirmatory Factor Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>CFI</th>
<th>IFI</th>
<th>GFI</th>
<th>RMSEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline model</td>
<td>0.905</td>
<td>0.908</td>
<td>0.901</td>
<td>0.07</td>
</tr>
<tr>
<td>Two-Factor Model 1:</td>
<td>0.780</td>
<td>0.783</td>
<td>0.865</td>
<td>0.09</td>
</tr>
<tr>
<td>Performance and Justice combined</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Two-Factor Model 2:</td>
<td>0.717</td>
<td>0.722</td>
<td>0.836</td>
<td>0.10</td>
</tr>
<tr>
<td>Performance and Justice combined</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Two-Factor Model 3:</td>
<td>0.698</td>
<td>0.702</td>
<td>0.802</td>
<td>0.11</td>
</tr>
<tr>
<td>Performance and Justice and Trust combined</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Two-Factor Model 4:</td>
<td>0.769</td>
<td>0.772</td>
<td>0.859</td>
<td>0.097</td>
</tr>
<tr>
<td>Trust and Performance combined</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>One-Factor Model 5:</td>
<td>0.551</td>
<td>0.556</td>
<td>0.764</td>
<td>0.131</td>
</tr>
<tr>
<td>Trust, Justice and Performance combined</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Correlation Analysis

The means, standard deviations, reliabilities, and correlations among the research variables are presented in Table 3.11. The bivariate correlations indicated that organizational justice was positively related to organizational trust. Organizational trust was positively associated with organizational performance and a positive relationship between organizational justice and organizational performance was also observed.

### Table 3.11: Mean, Standard Deviation and Correlations

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Organizational Justice</th>
<th>Organizational Trust</th>
<th>Organizational Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational Justice</td>
<td>3.4384</td>
<td>0.62379</td>
<td>(0.799)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational Trust</td>
<td>3.4952</td>
<td>0.65654</td>
<td>0.225**</td>
<td>(0.701)</td>
<td></td>
</tr>
<tr>
<td>Organizational Performance</td>
<td>3.6424</td>
<td>0.68117</td>
<td>0.311**</td>
<td>0.522**</td>
<td>(0.711)</td>
</tr>
</tbody>
</table>

**Note:** Correlation is significant at the 0.01 level (2-tailed). ** Represent the significance level. Alpha reliabilities appear in parentheses.

Two step approach of SEM, presented by Anderson and Gerbing (1988) was used to assess the model. In the first step the CFA was applied confirming the reliability and validity of the instrument and in the second step several goodness of fit indices were calculated to assess the model fit. The relationship among the unobserved variables is defined by the structural model. The structural model identifies the latent variables that cause changes in the other variables in the proposed model (Byrne 1998).

The research implied that justice, positively and significantly affects the level of trust of employees’ and further it effects the performance level of the organization. From the empirical analysis it may be inferred that trust plays a vital role in mediating the
relationship between organizational justice and its performance level. The success of a firm is closely linked with the perception of employees’ organizational trust and justice. The current analysis builds on the notion of the past researches which suggests that there is a direct effect of organizational justice and trust on organizational performance.

<table>
<thead>
<tr>
<th>Table 3.12: Regression Weights</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Estimate</td>
</tr>
<tr>
<td>--------------------------------</td>
</tr>
<tr>
<td>Organizational Justice → Organizational Trust</td>
</tr>
<tr>
<td>Organizational Justice → Organizational Performance</td>
</tr>
<tr>
<td>Organizational Trust → Organizational Performance</td>
</tr>
</tbody>
</table>

Note: *** represents \( p < 0.01 \)

From Table 3.12, it may be inferred that organizational justice and organizational trust have important role in impacting the organizational performance in software industry of Pakistan. A positive and significant relationship is found between organizational justice and organizational trust. A direct significant positive effect of organizational justice and organizational trust was also found. Organizational trust and organizational performance have significant positive relationship at 1% significance level which indicated that the hypotheses assumed are valid. The positive beta values also implied strong impact of organizational justice on organizational trust. Thus, from the empirical data it may be inferred that organizational justice had a significant impact on the performance of the organization. However, in this relationship trust plays a vital role. The results from this part of the study support a partial mediation because the estimated value of organizational justice to organizational performance is significant and the estimated values of organizational justice to trust and to performance are also positive and significant.

Substantial evidence exist that fairness perception and justice may have a positive impact on the performance of any organization. Having said that researchers still are not able to comprehend the mechanism through which justice affects the trust level among the employees. To capture the complete framework consisting of the role that trust plays between justice and performance of the employees the effect of social exchange process was also taken into consideration. The purpose of this study was to develop a more comprehensive model where the relationship between justice, trust and its impact on performance was studied in detail. According to Cropanzano and Mitchell (2005) social exchange theory
3.2. Part 2: Role of Justice and Trust in Organizational Performance

is the most conceptual answer to the workplace employee behavior. Although different views of social exchange exists but one thing remains common, researchers agree that to build social exchange a series of interactions are required (Emerson 1976). Keeping in view the social exchange theory, interactions are usually dependent on the behavior and attitude of the persons. High quality relationships are built only if these interactions are followed by transactions. Social exchange theory has not only explained relationship and organizational justice (Konovsky 2000) but is also used to elaborate the perspectives related to leadership (Liden, Sparrowe, and Wayne 1997), networks (Brass, Galaskiewicz, Greve, & Tsai, 2004) and psychological contracts (Rousseau, 1998). It is believed that trust is also a resultant effect of these continuous transactions and interactions. From this discussion two perspectives have emerged. The behavioral scholars state that since transactions are based on trust thus people will interact even if economic safeguard against opportunism does not exist. On the contrary, the economists argue that to have trust in a relationship one should have safeguard against opportunism. Both of these views are different from the observation of trust according to the social exchange theory. Trust emerges and evolves due to the past experiences and interactions (Rempel, Holmes, and Zanna 1985).

Exploring the influence of organizational trust as a mediator variable among organizational justice and organizational performance it was concluded that organizational justice plays a significant and important role in setting the performance level of the employees. Partial mediation was observed in this research proving that organizational justice and organizational trust both play a positive and significant role in improving organizational performance. Trust, being the vital component of social exchange theory, was found to be positively related to organizational performance. The institutional context of postmodern societies has led to a very uncertain environment and therefore the need for trust has increased. Not only for societies but it is also important for all spheres of social life. Many authors have studied its effect on organizational performance and have predicted various outcomes (Kramer, 1999, Lewicki, Wiethoff and Tomlinson, 2005, Colquitt et al., 2007).

This research would help the policy makers in improving human resource strategies and training programs. It would also aid them in implementing fair means of formal procedures and incorporate a proper system to allocate rewards and bring into practice fair interpersonal treatments which would lead to employee retention (Donovan, Drasgow, and Munson 1998).

Literature is filled with evidence where researchers have probed and examined the relationship between employee fair treatment and performance outcome of employees (Cropanzano and Greenberg 1997; Colquitt et al. 2001). Konovsky and Pugh (1994) also empirically analyzed that a strong relationship exists between organizational justice and employee outcomes (Moorman, Blakely, and Niehoff 1998). However, these researches have taken place in the individualistic states of west and its generalization to a collective state like Pakistan is questionable. Thus, in this part of the study a mediating variable i.e. organizational trust is added and its effect on organizational performance is monitored. Another important facet of this research is that organizational justice is considered to be a single construct consisting of the three dimensions of justice. It is different from the previous researches (Moorman, Blakely, and Niehoff 1998; Masterson et al. 2000) who
have either considered two dimensions to measure organizational justice or only one dimension is taken. Since, Pakistan is a developing country with less opportunities for the high tech professionals thus the employees when find a better opportunity move to countries where they feel that they can prosper. This makes it difficult for the managers to retain employees. This research explains the relationship between organizational justice, organizational trust and organizational performance that can help managers in creating a workplace where employees feel secure and trusted. Consistent with the arguments in the literature this part of the study endorsed that organizational justice and organizational trust has a positive relationship. While examining trust as an important component of social exchange theory this study found a positive relationship between trust and performance. Trust is the basis of exchanges that takes place between two parties and hence it is tied to various performance outcomes. Interdependence and risk is a consequence of trust. Uncertainly and trust gives rise to risk among the parties. The parties involved in the exchange process expect that the other party would reciprocate in a positive way in the future (Rousseau et al. 1998). Author in this part of the study tries to shed light on the understanding of trust management and how it may affect the performance of the organization as a whole. Researchers believe that social exchange theory may be able to answer the question why trusted employees increase the performance of the organization. This study found that organizational trust is a vital construct in defining the relationship between organizational justice and organizational performance.

3.3 Part 3: Dimensions of Justice, Trust and Organizational Performance

3.3.1 Data Description

The third part of this study highlights how trust mediates the relationship between dimensions of justice and organizational performance. Therefore, it is proposed that fair perception of justice fosters social exchange and in return employees reciprocate efforts and organizational performance increases. Employees who believe that their firm trusts them reciprocate with commitment and increased task performance. A cross-sectional design and quantitative approach was used to achieve the objectives of this research. The data used for analysis were collected under the researcher’s administration.

A Structured questionnaire was used to collect data from the employees’. Instrument used was validated by other researchers and only items relevant to the present part were used. Questionnaire development is the most significant part of any research thus the guidelines presented by Rattray and Jones (2007) and Dillman (2007) were followed while developing the questionnaire. Simple language was used in developing questions and care was taken to avoid ambiguous questions. Researchers state that the use of questionnaire for data collection is a widely accepted tool with less chances of bias (Popper 1959; Ackroyd and Hughes 1981). They stated that questionnaires are more practical and to the point. Additional information can be collected through questionnaires and even data can be more objectively analyzed. They also suggested that questionnaires can be carried out
3.3. Part 3: Dimensions of Justice, Trust and Organizational Performance

by the researcher easily with limited or no affect to its validity and reliability. All of the variables in the research frame were measured using multi-item scale as it captures complexity of the construct, aids in data analysis, increases reliability and validity. Survey method was selected for this research to avoid interviewer bias (Roberts 1999). Kerlinger (1986) narrated that survey method is a widely used technique in social sciences because of its reliability.

Research is an investigation that gives the researcher a choice of using different interpretive techniques. Qualitative research is a technique widely used to describe facts and incidents which otherwise is complicated to do with quantitative technique. On the contrary, researchers have to quantify the problem to apply quantitative technique. This technique is majorly used when the focus of the research is to generalize the results to the population or industry. Since the focus of the present study was to test the hypothesis rather than just describe it or assess the meaning of a situation thus quantitative approach was considered much better as compared to the qualitative technique to test the relationship between the variables.

To evaluate the measurement model and test the hypothesis, Partial Least Square- Structural Equation Modeling (PLS-SEM) was used. SEM is considered to be an essential tool in empirical research in the area of psychology, management and marketing (Williams et al. 2003). It is also an advanced tool for testing mediation analysis with greater sophistication. Using PLS-SEM with the help of SmartPLS, the impact of various justice types on organizational performance with mediating impact of organizational trust was explored. This technique is used as recommended by Anderson and Gerbing (1988) and Hair et al. (2012). They stated that this technique is a robust technique that does not require the data to be normally distributed. SEM analysis was chosen over regression analysis, because SEM can simultaneously analyze all of the paths in one analysis (Chin and Newsted 1999). Multiple reasons have been presented by Iacobucci (2008) why SEM is preferred over traditional regression. SEM reduces standard errors because it simultaneously estimates all of the parameters in the model. It is also preferred when a construct is measured with multiple items. Researchers (Rupp and Cropanzano 2002; El Akremi, Vandenberghe, and Camerman 2010) acknowledged that SEM is a preferred method while examining the mediating effect of perception on work related outcome.

Kline (2011) stated that SEM is used to signify a sequence of hypothesized cause-effect relationships between constructs into a holistic hypothesis revealing the model of statistical dependencies. SEM is comprised of a measurement model and a structural model. This research also takes into consideration a two step model. In the primary step of the measurement model, Confirmatory Factory Analysis (CFA) was applied. CFA allows the researcher to investigate a model and test how well that model fits with the data collected. It is suggested that measurement model should be estimated before structural relationships are predicted among the latent constructs. Structural model links the latent variables throughout a sequence of recursive and non-recursive relationships.

PLS-SEM is considered to be a very relevant and by far the most known technique in management to deal with the cause and effect relationships in latent variables. It provides a general framework for linear modeling and is designed to work with multiple equations simultaneously. Amongst various techniques it is a powerful and convenient tool
to present the model graphically. For this part of the research, PLS-SEM was applied since it allows investigating an entire conceptual model rather than testing the individual hypotheses. One of the limitations researchers face in this technique is that it requires a sample of at least 200. Lack of convergence to a solution is typically a problem faced by the researchers if they are not able to comply with the required sample size (Kline 2011). For the analysis of this research, perception of fairness was treated as an exogenous factor and organizational trust and organizational performance were treated as endogenous variables. The measures in the following section give details about the operationalisation of the key constructs. According to Veal (2005) and Sekaran and Bougie (2010) operationalisation is a method how a conceptual construct is to be measured.

3.3.2 Measures

Organizational Justice

The constructs used in the third part of the research were intended to measure the latent variables. The present research had dimensions of justice as the primary exogenous variables and trust and organizational performance as endogenous variables. Tyler and Lind (1992) formed the perspective that workers consider various fairness aspects or dimensions of justice when they build the fairness perception relative regarding a certain organization.

Items from the questionnaire developed by Niehoff and Moorman (1993) were used to measure organizational justice dimensions. Amongst three dimensions of organizational justice, procedural justice was measured by using six items. The cronbach alpha of this scale as reported in the earlier study conducted by Niehoff and Moorman (1993) was 0.90. In this research the cronbach alpha of procedural justice is 0.70. Distributive justice was measured by using four items. Cronbach alpha reported for this scale by Moorman, Blakely, and Niehoff (1998) was 0.90. For this part of the study, the cronbach alpha is 0.81. Interpersonal justice was measured by using four items from the instrument developed by Colquitt (2001a). Cronbach alpha concluded by Zhong et al. (2010) in their study was 0.90. The cronbach alpha for interpersonal justice is 0.77 for this part of the study. Following are some of the items used to measure organizational justice.

Procedural Justice

1. Job decisions are made by the manager in a bias manner.
2. My manager makes sure that all employee concerns are heard before job decisions are made.
3. To make job decisions, my manager collects accurate and complete information.
4. My manager clarifies decisions and provides additional information when requested by employees.
5. All job decisions are applied consistently across all affected employees.
6. Employees are allowed to change or appeal job decisions made by the manager.

**Distributive Justice**

1. My work schedule is fair.
2. I think that my level of pay is fair.
3. I consider my work load to be quite fair.
4. Overall, the rewards I receive here are fair.

**Interactional Justice**

1. When decisions are made about my job, my manager treats me with kindness and consideration.
2. When decisions are made about my job, my manager treats me with respect and dignity.
3. My manager offers adequate justification for decisions made about my job.
4. When making decisions about my job, my manager offers explanations that make sense to me.

**Organizational Trust**

Mayer, Davis, and Schoorman (1995) described trust as the willingness of an individual to be vulnerable. Literature states that trust is distinct from propensity to trust and trustworthiness (Mayer, Davis, and Schoorman 1995; Colquitt, Scott, and LePine 2007; Schoorman, Mayer, and Davis 2007). Several measures are developed to measure organizational trust. The most common measures developed by researchers (Mayer and Davis 1999; Schoorman and Ballinger 2006; Paliszkiewicz 2010) are considered to be both reliable and valid measures. The scale developed by Paliszkiewicz (2010) was used to measure organizational trust for this part of the study since, it was based on the review of literature that incorporated many research studies (Caldwell and Clapham 2003; Gächter, Herrmann, and Thöni 2004; Evans and Revelle 2008; Jones and Leonard 2008; Barraglio and Condrey 2009). Following the recommendation of Paliszkiewicz (2010), 13 items out of 15 were used to measure organizational trust having scale reliability (Cronbach’s alpha) of 0.89. The questionnaire was slightly changed to measure organizational perception of trust. The response scale ranged from (1) strongly disagree to (5) strongly agree. Following are some of the items selected for measuring organizational trust.

1. My organization has an atmosphere for sincere cooperation among employees.
2. Clear expectations are connected with results and aims from all employees
3. Employees are willing to share knowledge.
4. Employees are willing to take part in trainings.
3. Methodology

5. Periodic meetings take place between employees and the management.
6. In general the work responsibilities are established and clear.
7. The criteria of promotion are clear in every position.
8. Evaluation of employees is fair.
9. The relationship between employees is good.
10. All employees are treated fairly.
11. The interests of workers are taken care of.
12. Team work is encouraged and preferred.
13. Employees are encouraged to take part in decision-making

Organizational Performance

According to Becerra-Fernandez and Sabherwal (2001), organizational performance may be measured by taking into consideration the objective or subjective measures. It can be measured through financial performance of the firm including the objective measures and also through intangible measures or non-financial or subjective measures. Subjective measures or intangible measures include end user satisfaction, new competencies and measures that include comparing respondent’s organization in terms of sales and profit with that of any other organization that may have same sales volume and region.

As part of the research all the respondents were requested to respond to six items that compared their organization with that to an organization with similar sales volume and region. To measure organizational performance, items were selected from the instrument developed by Dollinger and Golden (1992). For all the six items the time span was the average of past one year. Respondents provided subjective perceptions of their organizations outcome. Literature is available that states that high correlation exist between perceptual or subjective and objective measures (Venkatraman and Ramanujam 1987). Dess and Robinson (1984) also recommended that self reports and perceptual scale gives much better information especially when the data is to be collected from privately held firms as it is difficult to find financial data of privately held firms. For the third part of the study, non-financial measures were used to measure organizational performance keeping in consideration that evidence exists that objective measures are positively correlated with subjective measures (Dollinger and Golden 1992; Delaney and Huselid 1996). In this approach, respondents are asked regarding their perception of situations where they have to assess the performance of their organization relative to the performance of competitors in the same industry. Likert scale at five points was used for this part since, it is widely used and accepted in social science research. Respondents were asked to indicate their opinion with each of the items in the survey regarding their participation of organizations performance. Cronbach’s alpha for organizational performance was 0.83, indicating acceptable reliability of the construct.

Following are the items used to measure organizational performance.
3.3. Part 3: Dimensions of Justice, Trust and Organizational Performance

1. My organization is more profitable in comparison with its competitors.

2. My organization has a larger market share than its rivals.

3. The organization that I am working for is growing faster than the competitors.

4. This organization is more innovative then other organizations with same volume and region.

5. My organization is more successful in comparison with its competitors.

6. As compared to the competitors of my organization this company has lower cost.

3.3.3 Results and Discussion

Descriptive Statistics

For descriptive purpose, this part included self reported demographic measures. Demographic variables that were included for descriptive purpose were gender, age, experience and income. These measures were not considered in the proposed model since, according to several studies (Cohen-Charash and Spector 2001; Tyler 2011; Crow, Lee, and Joo 2012; Baker, Gordon, and Taxman 2015) education, age, marital status and race is not significantly related to perception of justice and trust. Self reported questionnaire were used to measure perceptions as it is considered to be a very valid tool to measure justice related perception. A primary benefit of using questionnaire is that it gives surety to the respondent that the data would be kept confidential and it also gives access to the data which may be otherwise difficult to detect by the researcher (Fox, McManus, and Winder 2001).

The total participants included more male employees than females. These values also represent the banking culture of Pakistan where majority of the employees are male members. Majority of the young employees participated in the survey. The complete descriptive data can be found in Table 3.13 which represents gender, age, income level and work experience.

The present research takes into account data collected from the questionnaires to analyze and test the hypothesis. At the initial stage, the data were collected and transferred to SPSS. In the second stage the descriptive analysis was conducted and then PLS-SEM was applied. The conceptual model was studied in two stages in SEM-PLS. In the prior stage outer model was studied where it is confirmed that the items under study are valid and reliable. In the second stage inner model was examined where the interrelationship of the variables was measured and their strength was explored.

Validity and reliability are two main components that are directed relating to measurement error. Validity is the degree to which the variables under study are successfully operationalised. Abernethy et al. (1999) implied that it is important to note that to what extent the constructs are measured in a reliable manner and whether the items used measured the construct of concern completely. An in-depth understanding of the construct and deciding regarding the right instrument for measuring the construct is the most vital
3. Methodology

### Table 3.13: Demographic Information of the Respondents

<table>
<thead>
<tr>
<th>Measure</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>201</td>
<td>67.0</td>
</tr>
<tr>
<td>Female</td>
<td>99</td>
<td>33.0</td>
</tr>
<tr>
<td><strong>Age (years)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 25</td>
<td>49</td>
<td>16.3</td>
</tr>
<tr>
<td>25-34</td>
<td>172</td>
<td>57.3</td>
</tr>
<tr>
<td>35-44</td>
<td>58</td>
<td>19.3</td>
</tr>
<tr>
<td>45 and above</td>
<td>21</td>
<td>7.00</td>
</tr>
<tr>
<td><strong>Work Experience</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than one year</td>
<td>26</td>
<td>8.70</td>
</tr>
<tr>
<td>1-2yrs</td>
<td>55</td>
<td>18.3</td>
</tr>
<tr>
<td>3-4yrs</td>
<td>76</td>
<td>25.3</td>
</tr>
<tr>
<td>5-6yrs</td>
<td>46</td>
<td>15.3</td>
</tr>
<tr>
<td>7-8yrs</td>
<td>97</td>
<td>32.3</td>
</tr>
<tr>
<td><strong>Income (in Rupees, per month)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under 40,000</td>
<td>105</td>
<td>35.0</td>
</tr>
<tr>
<td>40,001-55,000</td>
<td>102</td>
<td>34.0</td>
</tr>
<tr>
<td>55,001-70,000</td>
<td>47</td>
<td>15.7</td>
</tr>
<tr>
<td>above 70,000</td>
<td>46</td>
<td>15.3</td>
</tr>
</tbody>
</table>

stage of validity in research (Hair et al. 2006). On the other hand, reliability is the degree of collecting data through consistency in an instrument. To minimize measurement error, proper development and administration of questionnaire is required. The main cause of having measurement error is having faults in the questionnaire development (Dillman 2007). To avoid measurement error, instruments already developed and tested for reliability and validity were used. Hair et al. (2006) confirmed that the use of prior research instrument increases the reliability. Reliability is a topic that has received much debate from social scientists (Baron and Kenny 1986; Coakes and Steed 2003). According to theorists (Coakes and Steed 2003; Hair et al. 2006) cronbach alpha is one of the most widely used coefficient to measure reliability. Researchers also suggested that 0.7 or higher value is considered to be a good reliability estimate. Sometimes a value between 0.6 and 0.7 is also acceptable when other indicators of proposed model are good (Hair et al. 2006). A higher reliability value indicates that all the measures consistently signify the same latent construct and a high internal consistency exists. The results of the analysis represents that the measurement model fulfills the criteria of reliability having values ranging from 0.7001 to 0.8907. The next step after calculating reliability is discriminant validity. As suggested by Fornell and Larcker (1981) the discriminant validity was evaluated by examining the cross-loadings. Hair et al. (2006) describes discriminant validity as the degree to which a construct is different from the other constructs. High discriminant validity provides evidence that a construct is unique and captures some phenomenon that is not captured by other constructs.

The relationship between correlations among constructs and the square root of average variance extracted (AVE) was also assessed. Convergent validity and discriminant validity
was also proved to be valid with composite reliability values ranging from 0.7842 to 0.9092, AVE ranging from 0.5001 to 0.6175, and factor loadings ranging from 0.5871 to 0.8864. The empirical data showed validity since, the indicator loadings exceeded 0.7 and the AVE of each construct also exceeded 0.50 (Fornell and Larcker 1981). The outcome of the structural path analysis specified that only one relationship between distributive justice and trust was insignificant. Empirical research from literature supports the phenomenon that in collectivist countries distributive justice plays a less significant role than procedural and interactional justice (Ahmad 2004).

Coefficient of determination ($R^2$) represents the variance in one latent variable, caused by other latent variables. In the research, 31.2% of variance caused in organization trust of banking sector of Punjab is due to three discussed types of justice. Similarly, 39.2% variation in the organization performance of banking sector of Punjab is due to organizational trust. This means that the organizational trust has strong influence on the organizational performance. The path coefficients express the strength of effect of one variable on the other variable. Moreover, the weight of various path coefficients represents the relative statistical importance of variables. The empirical data states that strongest effect on the organization trust is caused by procedural justice with $\beta$ value 0.326 and the weakest effect is caused by distributive justice with $\beta$ value 0.098. It is inferred from the results that the procedural justice is most important form of justice that impacts the trust level in the banking sector of Punjab. This result proves that in the banking sector employees are not much concerned with the resources itself but they are more concerned with the procedures and rules through which they are distributed. The model presents that 62.6% of variation on the organizational performance in banking sector is caused by organizational trust and remaining effect is due to external factors.

**Measurement Model Results**

The outer model assesses the validity and reliability of the measurement model and the psychometric properties of the scales used. Table 3.14 presents the tabular presentation of the measurement model.
3. Methodology

Table 3.14: Measurement Model Results

<table>
<thead>
<tr>
<th>Measurement Items</th>
<th>Loading Value</th>
<th>Cronbach’s Alpha</th>
<th>Composite Reliability</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>DJ1</td>
<td>0.8453</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DJ2</td>
<td>0.7087</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DJ3</td>
<td>0.5881</td>
<td>0.8145</td>
<td>0.8475</td>
<td>0.5872</td>
</tr>
<tr>
<td>DJ4</td>
<td>0.8864</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IJ2</td>
<td>0.7228</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IJ3</td>
<td>0.8193</td>
<td>0.7712</td>
<td>0.8284</td>
<td>0.6175</td>
</tr>
<tr>
<td>IJ4</td>
<td>0.8117</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OT10</td>
<td>0.7769</td>
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</tr>
<tr>
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<td>0.7174</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OT12</td>
<td>0.6982</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OT13</td>
<td>0.7179</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OT14</td>
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<tr>
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<tr>
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<td>0.7115</td>
<td></td>
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<tr>
<td>OT5</td>
<td>0.6715</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OT6</td>
<td>0.6159</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OT7</td>
<td>0.6682</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PJ1</td>
<td>0.7493</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PJ3</td>
<td>0.7410</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PJ4</td>
<td>0.6764</td>
<td>0.7001</td>
<td>0.7842</td>
<td>0.5001</td>
</tr>
<tr>
<td>PJ5</td>
<td>0.5871</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>POP1</td>
<td>0.7361</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>POP2</td>
<td>0.7227</td>
<td></td>
<td></td>
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</tr>
<tr>
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<tr>
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<tr>
<td>POP5</td>
<td>0.7224</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>POP6</td>
<td>0.8205</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Principal Component Analysis (PCA) was applied and the items with loading values greater than 0.50 were chosen while eliminating the others (Wold et al. 1987). Cronbach alpha presents internal consistency. Items with value 0.7 or greater were selected as threshold values. Since, the values of the cronbach alpha were greater than the threshold values hence, internal reliability was proved. The composite reliability of the items is presented in the next column. Average variance extracted (AVE) shows the variance in the latent variable occurs due to the relative amount of variation in its items caused by measurement error. According to Bagozzi and Yi (1988), the acceptable value of AVE is 0.5 or higher. According to Fornell and Larcker (1981) discriminant validity is established if the square root of AVE in each latent variable is larger than other correlation values among the latent variables. Table 3.15 shows the correlations among various constructs. The bold values in the diagonal are the square root of the AVE. It is clear from Table 3 that the diagonal values are greater than the inter-construct correlations which indicate
acceptable discriminant validity of all constructs. Therefore, it may be concluded that the constructs have required construct validity.

Table 3.15: Discriminant Validity

<table>
<thead>
<tr>
<th>Construct</th>
<th>Distributive Justice</th>
<th>Interactional Justice</th>
<th>Organizational Performance</th>
<th>Organizational Trust</th>
<th>Procedural Justice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributive Justice</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>0.7662</strong></td>
</tr>
<tr>
<td>Interactional Justice</td>
<td>0.1923</td>
<td></td>
<td></td>
<td></td>
<td><strong>0.7860</strong></td>
</tr>
<tr>
<td>Organizational Performance</td>
<td>0.1175</td>
<td>0.3681</td>
<td></td>
<td></td>
<td><strong>0.7381</strong></td>
</tr>
<tr>
<td>Organizational Trust</td>
<td>0.2717</td>
<td>0.4417</td>
<td>0.6263</td>
<td></td>
<td><strong>0.7078</strong></td>
</tr>
<tr>
<td>Procedural Justice</td>
<td>0.3542</td>
<td>0.3550</td>
<td>0.3117</td>
<td>0.48753</td>
<td><strong>0.7071</strong></td>
</tr>
</tbody>
</table>

**Structural Model Results**

Structural model presents the results of hypothesis testing. In this empirical analysis, the structural paths and the $R^2$ values depict the explanatory power of a structural model. Bootstrapping was done prior to hypothesis testing. 5000 samples from 300 responses were used to serve the purpose. The path coefficients estimated after bootstrapping show the significance level and t-statistic of the relationships provides basis to accept or reject the hypothesis.

![Figure 3.6: Results of the Proposed Model](image)
3. Methodology

Table 3.16 illustrates that a positive relationship exists between the three types of justice with organizational trust and organizational trust has positive relationship with organizational performance. However, a significant relationship does not exist between distributive justice and organizational trust. An important finding of the third part of the study is the role of procedural justice on organizational trust. This is consistent with the results drawn by Hubbell and Chory-Assad (2005) in their study on organizations. They also found that procedural justice plays an important role in increasing trust among the employees than interactional justice. Other researchers have also found that interactional justice play an integral role in organizational context (Fang, Chiu, and Wang 2011). Thus, it may be concluded that the role of justice dimensions may be context specific.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Path Coefficient</th>
<th>Standard Deviation</th>
<th>Standard Error</th>
<th>T-Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter. Justice → Org. Trust</td>
<td>0.3005</td>
<td>0.0307</td>
<td>0.0307</td>
<td>9.7752</td>
</tr>
<tr>
<td>Dist justice → Org. Trust</td>
<td>0.0904</td>
<td>0.0421</td>
<td>0.0421</td>
<td>2.1487</td>
</tr>
<tr>
<td>Proc. Justice → Org. Trust</td>
<td>0.3488</td>
<td>0.0393</td>
<td>0.0393</td>
<td>8.8704</td>
</tr>
<tr>
<td>Org. Trust → Org. Performance</td>
<td>0.6263</td>
<td>0.0303</td>
<td>0.0303</td>
<td>20.7021</td>
</tr>
</tbody>
</table>

**Note:** Path coefficients greater that 0.1 with t-values greater that 1.96 are significant at 0.05 level.

Part 3 of this chapter empirically examines the relationship between the three dimensions of perception of justice, organizational trust and organizational performance in the banking sector of Pakistan. Specifically, this research specified and tested a mediating role for organizational trust in the relationship between organizational justice and employee performance. The study proved that the three dimensions of justice affected organizational trust differently. A strong impact was seen on organizational trust by interactional and procedural justice however, a very weak association was found between distributive justice and organizational trust. Distributive justice is concerned with a worker’s perception of fairness of rewards (Greenberg and Colquitt 2005). Results from the research were partially consistent with the work of Barling and Phillips (1993) who stated that procedural justice is a major determinant of trust as compared to distributive justice. These findings also supports the study of Colquitt et al. (2012) and Colquitt et al. (2013) that concluded a significant positive impact of organizational fairness on organizational trust. In simple words, employees’ perception of overall fairness in organization promotes organizational trust. These results suggest that more the employee perceive that its organization is fair in dealing, interacting and distribution of reward the more would be the organizational trust. This perception would lead the employee to develop care for the organization and refrain from developing negative opinion.

Organizational trust demands employees to be vulnerable to the actions of the organizations. The willingness of employees is enhanced when their organization transparently correspond their actions to the employees. Employees also consider the coworkers to be a valid source of information for them (Tan and Lim 2009). Trust is assumed to prevail
in an organization where a cooperative environment exists and communication among the employees is smooth. Trust is considered to be a perception thus positive or negative perception of trust effects employee’s attitude and behavior towards the organizational goals as well (McAllister 1995; Mayer and Gavin 2005). The findings from this part of the study indicate that transparency in procedures and rules, clear communication between management and employees enhances trust level in the organization. In this situation employees do not focus much on the rewards but values the procedures though which they are being allocated. A clear communication channel between the management and the employees inspires the employees to perform at their optimum level which eventually not only increases the individual performance but also the collective organizational performance.

This research was unique in nature because the previous studies considered organizational justice to be a unidimensional construct. The present research presented an in-depth view and examined the separate effect of the three dimensions of justice on trust, this was an important distinction from the previous studies. Studying the effect of the dimensions of justice on trust enhanced the richness and authenticity of this study. It highlighted the different effects of independent variables on the mediating variables based on the nature of the proposed model. It also examined the integrative model of social exchange and its application to the eastern collective culture. The findings from the study reinforced the social exchange theory considering interactional justice to be a vital determinant of organizational trust. The results of this part of the study were different from the results of Brockner (1996) since he concluded that men were more sensitive to distributive justice than women. However, in this research the number of men was more than that of women but still distributive justice was not a primary determinant of trust. This research implies that employees form perceptions to leave and show retaliation and anger towards organization when they perceive injustice in firms’ practices. These negative experiences would eventually result in decreased performance of the employee. Thus, it may be concluded that if an organization wants to increase its performance it should work on building organizational justice which eventually will boost organizational trust.

Justice and trust are two important components out of many that workers consider while building a relationship with the organization. Trust is a determinant that forms the basis of a psychological contract with the other party. This research considers trust as a content element on which the progress of economies and organizations depends on. In the first part of the study, the impact of change in trust is mapped on the performance of the countries. The results of this part reveal that for developed nations a high level of trust may become a setback, once the trust level crosses a certain limit. On the contrary, a high level of trust for developing countries may bring them prosperity in terms of economic growth. In the second part of the study, trust is taken as a mediating variable among organizational justice and organizational performance. The results indicate that unfairness at the workplace not only has a direct effect on the organizational performance but it declines the level of trust of the employees on the organization. This has even deeper effects since, once the employee losses trust on the organization, many changes arise. Some of them may be internal to the employee. These changes may include demotivation, lack of commitment and even health issues for the employees. An environment of mistrust and unfairness makes it difficult for the employee to work in the organization. Taking this
as the starting point for the third study, it was important to see that which dimension of justice impacts the trust level of the employees. Hence, the third research investigated the impact of the three dimensions of justice on trust level of the employees and revealed that employees consider rules and procedures to be very important while any significant decision is to be made. Similarly, it was also highlighted that companies that are able to communicate well to the employees are able to build a positive perception of trust which enhances the performance of the overall organization.

This part of the research had many empirical as well as conceptual contributions. It provides a more focused but detailed knowledge of justice, dimensions of justice and trust. From the theoretical aspect, this study has useful implications for individuals, the management and the organization as a whole. The results of this part of the study show different effects of justice on organizational trust.

3.4 Limitations of the Study

Three studies included in the dissertation provide new insight into the importance of trust, justice, the dimensions of justice and its impact on the performance at macro and micro level for the economies and organizations respectively. It is pertinent to acknowledge some of the limitations of these studies that are explained below.

3.4.1 Data, Sample and Responses

Part 1 of thesis included the data of 64 countries; it was due to non-availability of information on interpersonal trust for more countries in the World Value Survey. Similarly, Cross sectional data were collected for Part 2 and Part 3 of the thesis which brings in limitations relevant to cross sectional data i.e., selected time period might have yielded different results compared to if longitudinal data was used. Again availability of the data is the reason behind this compromise. However, this was taken care by in-depth literature review and theoretical backing of the proposed relationship of variables and causation.

The hypothesized models of the selected studies were consistent with the existing theoretical literature based on the work of Colquitt et al. (2013). This was also addressed by using Structural Equation Modeling to overcome the limitations attached with using ordinary linear regression for multivariate analysis. One benefit of SEM is that it allows the researcher to control the measurement errors for the latent constructs. It also helps in evaluating all the variables in one model with less complexity.

Simple random sampling was used to select sample from the selected population in part 2 and part 3 of the dissertation. A common argument regarding the use of this sampling technique is the fragmented representation of total population. However, simple random sampling is commonly used technique in a number of past studies to handle larger samples (Spence, Finegan, and Shamian 2002; Siu 2003). This technique has biggest advantage in the form of almost no chance of conscious and unconscious biasness or prejudice. On the
whole, random sampling technique was considered most suitable for this type of research since it gives chance to get a fair representative sample.

The present research concerned perception of employees and their subjective view regarding the organizations. One of the most sensitive problems that arise in such research is the way in which the questionnaire was perceived and answered. Researchers try to control biasness in several ways such as a cover letter with the questionnaire assuring the confidentiality of the information and follow ups to increase the response in terms of completely answered questionnaires. However, controlling the manner in which the responses were given is not in the hands of the researchers. This issue is often faced when the researcher is trying to collect data regarding sensitive topics (Kalton 1983; Bradburn, Sudman, and Wansink 2004). During the data collection for current research, some participants intentionally left some questions unanswered despite the surety cover letter attached confirming the confidentiality. Such hesitation to answer the questionnaire concerning the sensitive information can be considered as the limitation of this study.

Social desirability is another factor that indulges employees to answer questions in a manner that are favorable for them, yet not true, which might have affected the results. The present study tries to reduce these biases by taking a few steps. Firstly, a cover letter was attached with the questionnaire assuring that the data would be kept anonymous. Secondly, the employees were assured that this research has nothing to do with their jobs and hence, is used for self learning and research purpose. Thirdly, questionnaires were randomly sent and employees were not asked for their identity information.

The research conducted in part 2 and part 3 of the thesis measures the constructs using objective measures. Factors representing dimensions of justice are measured using perception of procedural, interactional and distributive justice. In other words, the practice of fair rules and policies were judged by measuring the perception of fairness that employees have. Similarly, organizational trust and organizational performance was also measured how employees perceived it. Since, all the indicators are measured on self-reporting questionnaires, variations might exist between what employees perceive and the reality. However, it is debatable whether employees’ perception matters more than reality or reality itself and what is actually the reality (Lewis and Weigert 1985; James 1890). Common method bias is also an important factor to consider since it may threaten the validity of research (Podsakoff et al. 2003). Thus a number of measures were addressed while designing the questionnaire, collecting data and during pilot testing of the questionnaire to avoid common method bias (Podsakoff et al. 2003).

Similarly, Justice and trust are constructs that cannot be measured objectively as they are related to behavior of the employees and hence, researchers have to rely on objective measures. Self reporting surveys are considered to be a useful technique when issues relating to behaviors are to be judged. Research also proves that subjective and objective measures have high correlation (Venkatraman and Ramanujan 1987) and subjective measures gives a true picture of the scenario when data is to be collected from privately held firms (Dess and Robinson 1984). Subjective measures were also considered appropriate in this situation since research concluded by researchers (Elo et al. 2014; Reynolds and Hicks 2015) reported that employees are willing to cooperate and give details regarding their own behavior and the behavior of their co-workers’ subject to that their manager
allows them to do it. Even in the present survey, the employees were reluctant to answer questions till they were verbally told by the managers of their organizations that the questionnaire is distributed with their consent. This might have affected the way responses to the questions were given by the respondents i.e., Hawthorne effect (McCarney et al. 2007).

3.4.2 Diverse theoretical support for the proposed model

This research includes a vast amount of literature and theories of social sciences, Management, and economics. One may argue regarding the fragmented theoretical support in the presence of large number of theories from different fields of study. However, the purpose has been to give required support to the proposed model. Large amount of literature review and theories from diverse fields of study add strength to the conceptual framework on which the proposed model rests (Miles and Huberman 1994; Robson and McCartan 2016). Since the conceptual framework is a unique process for each study thus care and recommendations of Ravitch and Riggan (2011) were followed while developing the framework and model.

3.4.3 Generalization of results

Generalization is a vital concept in all research that depicts the procedure of developing knowledge that is valid to all elements of a population, while studying only a part of these elements. Since in part 2 and part 3 of this research, structured questionnaire with close ended questions was used to collect data which leads to limited outcomes. Thus, in such scenario the results always do not represent the actual occurring, in a generalized form. The results and conclusions of the present study might also be more relevant to Pakistan especially for study 2 and 3. Care should be taken in generalizing the results and conclusions for other countries that may have slightly different social structures.
3.4. Limitations of the Study
Chapter 4

Conclusion and Future Research Directions

The three parts of the study delved into the areas of trust, justice and performance to seek importance of trust in reaching the desired performance output. According to the relevance of the topic, various chapters of the study explained justice, its dimensions, trust and performance in detail. The literature review identified key areas and encapsulated important theories that helped in building the proposed hypothesis. This study stressed that trust plays a vital role in work environment. It is a component that provides positive energy to the members of a team. According to Shockley-Zalabak, Ellis, and Winograd (2000) it is easier for organizations to adapt to change if trust exists in the system. It is stated that employees who feel trusted and believe that justice is prevailing in the organization tend to be more productive and increase the organizational performance. This relationship holds true for the banking industry and the software industry of Pakistan. Banking industry is central to any economy, but an investor would never like to invest with a bank until he feels secure and have confidence on the bank. This confidence can only be achieved by the organizations if they are able to develop trust among its employees who are directly dealing with the customers. Trust is not only important for organizational continuity but it is also useful for the organizations to achieve competitive edge (Culbert and McDonough 1986). Without any doubt, the most important contribution of the present study was the associations found among trust and economic progress. In this study not only the role of trust was evaluated but the importance of justice was also strengthened.

The research postulates that perception of trust has a significant impact on performance of organizations and countries. In Part 1 of the present study, the effect of trust on performance is captured from the economic point. It highlights the impact of change in trust on the performance of different countries. The second part of the study explores the effect of justice on the trust level of the employees and further investigates the effect of the trust level on the organizational performance. The third part of the study explains in-depth the relationship of justice and trust. This research measures the impact of the three dimensions of justice on the trust level of employees. From organizational point of view, it is important to know the elements that employee consider more valuable while building trust on the organization. A major contribution of this study is towards the existing framework...
of justice, trust and performance. The present study expands the knowledge of the reader regarding the role of justice and trust in employee-employer relationship and stresses on the importance of perceptions and fairness in improving the performance. From the employees' perspective, this study also presents the significance attached with the fact that employees in a collectivist state prefers procedural justice more over distributive justice. Hence, organizations while making policy should take this point into consideration that procedures and rules for resource distribution should be transparent so that perception of injustice may not take place.

Relationships are built on the pillars of trust in any organization. Kim et al. (2006) in a study narrates that one of the dilemma that organizations faces is that many promises are made but not fulfilled and this breaches the relationship of trust between the employer and the employee which brings with it many consequences. Not only organizations but investors make transactions and investments in other countries with formal contracts not covering the aspect that trust covers. When such contracts are breached heavy consequences are to be faced by the parties in terms of financial and non-financial expenses (Schweitzer, Hershey, and Bradlow 2006). From the research conducted in the second and third part, it is agreed that building trust is very hard and it can be easily lost. Organizations need to build strategies to maintain trust and to protect it. It is also implied that if a contract based on trust is breached, than the trust level decreases far below the initial level of trust and re-establishing trust is very hard (Kim et al. 2006). The two studies conducted in the organizational context testify that trust works as a strong mediator between justice and organizational performance.

From the organizational performance standpoint, the study indicates that trust is a vital tool to enhance organizational performance. Different issues such as commitment, motivation, and customer loyalty are also related with trust and justice in organizations. Thus, if organizations are able to develop a perception of justice and trust among its members then other stakeholders are also able to achieve benefits. It is suggested that the same is true for countries economic growth. Deming (1994) stated that trust is a vital tool to keep the system together. If there is lack of trust among the members of the organization then employees will follow their own interests and their own long term goals.

Dasgupta (2011) argued that if a country wants to develop and prosper then it should build interpersonal trust. However, the present research states that countries that reap a certain level of trust should also be cautious as beyond a certain level of trust the impact of economic growth is reversed. The implications of the present research can be split into two broad categories. This research may be significant for the managers and executive of the industries and also for the policy makers of the countries. This study does not only give suggestions to the international investors to develop strategies relating to foreign direct investment but also presents facts which may be useful for investors in selecting a country for entry. Findings of this research provide some guiding standards to the importance of investing in a country where trust exists in comparison to countries where the trust level among people is low. The present study adds to literature by bringing into consideration the international and local context where trust is studied from the macro and micro perspective. The conclusion drawn from the empirical results of the three studies are explained in the following parts.
4. Conclusion and Future Research Directions

4.1 Part 1: Level of Trust and Performance

Previous researches conducted on trust and performance indicates that a positive relationship exists between the two variables. This part of the study highlights the impact of change in the level of trust on the economic performance. It further divides the countries into developed and developing countries and provides an in-depth analysis on how trust impacts the performance of the countries. The results reveal that for developing countries trust level is positively associated with the performance of that country. This shows that for developing countries trust is a vital component in improving performance of a country. However, for developed countries it demonstrates an inverse U type behavior. Trust not only increases the performance of the country but it also facilities in transactions that take place within a country. International investors are also attracted to countries with high level of trust. This is one of the reasons why countries with high trust level achieve economic performance. In developing countries, most of the decisions regarding FDI, joint ventures and entry mode choice are made on relational agreement based on trust. Since, the institutions in the developing countries are not as strong as the institutions in the developed countries the managers and investors have to depend on contracts based on trust. Developing countries where a high level of trust prevails are considered to be more attractive for collaborative projects and international investment.

The results from this part of the study suggest a strong relationship between interpersonal trust of the members of the country with the performance of the countries. It was empirically proved that the coefficient of trust was highly significant in the developing countries as compared to the developed countries. Hence, it may be concluded that economies can gain better economic performance by increasing the level of interpersonal trust. Developed countries may gain benefits of high level of trust but it may be hampered once a certain trust level is achieved. A higher trust level than a certain point may bring negative consequences for them. One reason behind this may be the gap that arises once the regulatory frameworks reduces its level of functioning. Due to this the opportunists may take advantage and exploit the situation.

From both historical and recent empirical analysis it may be concluded that trust has important implications for economies as it facilitates the transactions that take place between the members within society. The relative payoffs are not only determined by how institutions are performing their functions, but also by how property rights are being protected and what is the level of social norms and interpersonal trust. Governmental and political institutions have a vital role to play in this regard as they can reduce the level of uncertainly and protect the investors by binding them in contracts. Countries where the social and political institutions are not able to resolve the principal agent problem, the parties may consider doing transactions based on trust. This is in line with the research of Kukharskyy (2012). He states that countries attract more foreign direct investments where higher level of trust exists.

Some of the unique factors of this part of the study are highlighted as below. This research utilized panel data as well as cross country analysis on a sample of 64 countries from 1980-2014. Countries were further divided into developed and developing countries to observe the resultant effect of trust on economic performance. Empirical results show
that there exists a positive relation between social trust and economic performance. The result further describes that investment and human capital are leading determinants of economic performance. However, to explain the monotonic relationship between trust and economic performance, the research added a non-linear term of trust in the regression model. Countries that were divided into developing and developed countries showed a different impact of trust. In developing countries the result explains U-shaped path between trust and economic performance, stating that economic performance is positively related to an increase in the level of trust. However, for developed countries an inverse U-shaped path was observed. The research pointed to the fact that economic performance is negatively related to an increase in the level of trust.

Several managerial insights can be drawn from the findings of this research. Managers and foreign investors can use the results to develop strategies regarding foreign direct investment (FDI) which is an important international strategic decision (Aharoni, Tihanyi, and Connelly 2011; Nielsen and Nielsen 2011). Scholars (Arrow 1974; Ouchi 1981; Bradach and Eccles 1989; Hill 1990; La Porta et al. 1997) explained that firms favor doing FDI in such countries where high level of interpersonal trust prevails in society. Fukuyama (1995) and La Porta et al. (1997) highlighted the fact that trust in society increases natural sociability which makes it easier for the members of the community to welcome other associations and maintain a cooperative relationship with new entrants. It is also stated that countries with high level of trust decreases monitoring cost as they are able to attract FDI and other investment opportunities. The results are also in line with the preposition that trust enhances the economic efficiency and promotes effectiveness by giving positive signals to further boost the level of FDI (Arrow 1974; Ouchi 1981; Wilkins and Ouchi 1983; Parkhe 1998; Child 2001).

As discussed earlier, trust among the members of the society aids in facilitating the economic transactions and would decrease the cost of transactions. Thus, this study would be helpful for the policy makers, practitioners and researchers. As explained by Hill (1990) and La Porta et al. (1997) a country with higher interpersonal trust level is considered to be a better candidate to receive FDI and increase economic performance.

The study conducted in Part 1 focuses the attention to the important issue of social value of trust with potential growth of a country. The results of this research have many implications for the managers of a multinationals. It would show future directions for local companies as well as multinationals for further expansions and strategic decision making with a given level of social trust. Due to high level of trust many social and economic transactions are facilitated in several ways (Arrow 1974; Coleman 1988; Putnam 1993). For instance, at micro level organizations may benefit from this factor as it reduces the probability of principal agent problem and the extra transaction cost (Whiteley 2000). It also reduces the time required in engaging in transactions and burden of doing extra paper work (Arrow 1974; Ouchi 1981). At the macro level, it decreases the risk of fraud and requirement of regulatory mechanisms for protecting any breach in contract. Thus, according to La Porta et al. (1997) a country is preferred in trading and in receiving FDI where the interpersonal trust level is high.

High level of trust has many positive implications for the development and progress of a country. Developing countries where higher level of trust prevails gain interest of foreign
investors. Managers of multinationals and foreign investors also want to form a relational agreement with countries where high level of trust prevails since it decreases the burden of fraud and deception Kukharskyy (2012). This also gives the confidence to the investors and managers of multinationals in choosing the entry mode choice in a country (Ring and Van de Ven 1992; Chiles and McMackin 1996). Researchers (Aharoni, Tihanyi, and Connelly 2011; Nielsen and Nielsen 2011) emphasized that entry mode choice, location decision and FDI's are central and critical international strategic decisions where trust has a significant role to play (Ring and Van de Ven 1992; Chiles and McMackin 1996; Brouthers, Brouthers, and Nakos 1998).

4. Part 2: Role of Justice and Trust in Organizational Performance

Social scientists have concluded from their studies that trust is an integral component for organizations to function well (Argyris 1964; Arrow 1974). However, Gaur et al. (2011) had a different perspective; he stated that too much trust or trust in certain conditions may lead to many negative outcomes. Literature in the past has generally assumed that organizational trust and organizational performance has a positive relationship but the empirical relationship is still not very clear (Mayer and Gavin 2005; Salamon and Robinson 2008). This part of the research indicates that justice and trust may enhance the employees’ performance and decrease the turnover ratio which is the present dilemma of many organizations. Decrease in the turnover ratio would not only have benefits for the employees but also for the organizations as well. Although it is a challenge for the management to build positive perceptions of justice and trust among employees but the employers should take necessary steps for the long term growth and development of their organization. Literature suggests that justice is the most integral factor that can increase employees’ performance but this research advocates that trust also plays a vital role in improving the organizational performance.

The main aim of this part of the study was to explore the effect of organizational justice on organizational performance. Trust played the role of a mediating variable in this relationship. To investigate the relationship, software industry of Pakistan was taken into consideration. This research would be significant for the upper management and policy makers to keep the employees motivated and implement such policies which would enhance the performance of the organization. The results drawn from this research adds to the previous literature that justice may not be the only factor in prompting performance of employees (Byrne and Cropsanzano 2001; Dirks and Ferrin 2001). Perception of trust in the minds of the employees is an important and integral factor in enhancing performance.

Employees are much aware of their right and hence organizations need to treat them well. If employer is not able to create a perception of fairness among its employees then workers may either switch to other organizations or they would not try to meet the performance level which the organization expects from them. From this part of the study, it may be inferred that if organizations want to progress then they should not only practice
equality but they should be able to create a perception of justice in the minds of their employees. Software industry plays a vital and significant role in the progress of Pakistan thus; to meet the upcoming challenges the managers of this industry must be aware of the upcoming risks. The findings of this study suggest that the managers and policy makers of organizations can use trust as an important tool to improve the organizational performance. Trust is considered to be a fundamental construct for organizations to lead the path of success (Kramer and Lewicki 2010). An organization where trust prevails among the peers can progress easily and rapidly as compared to organizations where trust does not prevail. Organizations that encounter lack of trust needs to bear an extra cost to fill the gap. Organizations can consider justice and trust to be a mechanism in creating positive vibes in the organization to increase productivity.

4.3 Part 3: Dimensions of Justice, Trust and Organizational Performance

Social scientists highlighted that workers oblige other colleagues by their actions so that a mutually beneficial exchange may take place (Cropanzano and Mitchell 2005; Colquitt et al. 2013). Hence, it is important to note that fair treatment and organizational justice promotes social exchange relationship which has many positive outcomes associated with it (Cropanzano et al. 2001; Cropanzano and Mitchell 2005). Based on previous research, it is proposed that fairness has different dimensions and trust is a strong mediator between organizational performance and organizations fairness dimensions.

The third part of the study had multiple findings. Firstly, the study emphasizes on the generalizability of the social exchange model to the eastern culture. This research reinforces the importance of trust in organizations where employees are also connected by a force of social exchange phenomenon. It is highlighted that employees are a major source for achieving competitive edge. Building a good perception of justice may be challenging but if organizations want to survive and remain competitive then they must consider their employees as an asset. It has become even more challenging for companies due to the trend of having a multicultural workforce. From a practical perspective, companies must incorporate strategies in their human resource practices to form and build trust among employees (Whitener 1997). Although, much work is present on justice and trust but comparatively few empirical studies are present that are conducted in the banking industry of Pakistan. This part of the study highlights the importance of organizational justice dimensions and its work related outcomes. The findings suggest that the relationship between employer and the employee impacts the performance of the employees in many ways. To empirically explore and investigate the complicated relationship of fairness perception, SEM was used to overcome several weakness of traditional regression model that was used in the past. By using SEM multifaceted relationships were examined.

The impact of the dimensions of justice was examined on organizational trust. From the employer perspective, it provides them with an increased understanding and a tool to measure employees’ perception. This perception is significantly affected when a major
decision is to be made by the organization. Employees built perception about the organization when they witness fairness in rules, regulations and in the manner in which they are treated during major decisions. This is important from the organizational perspective since managers may be able to increase the performance of the employees by understanding the antecedents that build trust in the organizations. The findings of this part of the study reveal, that to enhance employees’ performance in a bank, managers should focus on the procedures how the rewards are being distributed and interact and communicate with employees politely and more frequently. Owusu-Boateng and Jeduah (2014) endorsed in his study that the way managers treat their employees influences the way the employees treats the customers which in return affects organizational performance.

Every firm has a distinct culture in which employees perform their duties; banking industry has no exception to it. For organizations to become successful much responsibility lies on the shoulder of managers. It is important for managers to provide its employees with an environment based on trust, care and fairness only then employees would contribute towards achieving the desired performance. Formally and informal interaction among the employees promote social exchange. Perception of fair justice system influences relationships during the social exchange process. Employees build perceptions about the fairness in system and treatment as an ongoing process. Literature establishes that although the organization may be treating their employees fairly but employees may build a perception that the organization is treating them unfairly. Such negative perceptions can have many negative outcomes. The present research endorses the strong association between organizational justice, organizational trust and organizational performance. Although justice and trust are vital components for any organization but its importance increases in sectors like police and banking in which employees have to directly deal with people and handle their valuables. According to Fischer et al. (2014) if an organization wants to attain customers trust it should treat them with respect. Similarly, employees should be given value and dignity so that they are able to build trust on the organization. This builds a perception of procedural and interactional justice within their organizations. Reynolds and Hicks (2015) suggested that unfair policies, inconsistent procedures, dual standards are the main causes why employees form a negative perception about the organizations. Thus, to bridge the gap between organizations and employees, managers should deploy trainings and meet often to interact and listen to employees (Skogan, Van Craen, and Hennessy 2015).

The study points towards the role that trust plays in the organizations and in the economies. It is an interesting fact since it is perceived in a different manner by people working in the same organization. Trust may function as a facilitator to many transactions. From the economic point of view, countries with higher level of interpersonal trust are given preference for FDI since less cost is involved. Investors feel secure even while making long term investments in a country where social trust level is high among people. Trust and justice holds importance for organizations since employees who perceive high level of trust, put extra effort to improve performance. Customer satisfaction, employee commitment and employee motivation are some of the positive outcomes associated with trust. The present study suggests that trust effects performance but formation of trust is dependent on the fairness of rules and regulations. Among all the facets of justice, trust is most affected by interactional and procedural justice. Thus, for organizations to increase performance they
must practice fairness in policies and communicate well with the employees during any major decision.

This study will have many policy implications for the policy makers and for the management in the organizations. The findings of this study may guide the foreign direct investors in decision making while choosing a country for investment. The policy makers of a country may also benefit from the study by understanding the extent to which they need to invest in trust related activities. The inclusion of the squared term of trust addresses the limitation that has been largely ignored by prior literature where the stress was only on trust and not on the effect of change in the trust level. The addition of this element enriches the understanding of the complexity of international entry mode decision. The findings from part 2 and part 3 of the study may be helpful to the top management and human resource management department in understanding the importance in investing in the activities relating to trust building in the organizations. Since employees are directly affected by the perception that they built thus not only their attitude and behavior but also their performance level, intention to stay with the organization and effort to work for the betterment of the organization is also dependent on the perception that they built. This leaves the burden on the shoulders of the manager to create an environment where trust and justice prevails.

4.4 Future Directions

New insights emerged while conducting research in this study. Some of the areas where work can be extended in the future are explained in the following.

Further research stemming from the current study can discover the impact of situational factors on justice, trust and performance relationship. This is because role of situational factors on trust and justice is mainly unexplored in this area. Similarly, discussion on different dimensions of trust is already catching up in the contemporary literature. These dimensions may reveal different impact on the dependent side when seen in the light of situational factors. It can be expected that bringing in multiple situational factors and different dimensions of trust on the independent side may need a more comprehensive qualitative analysis and may require a broad panel data. Such an analysis would help in fine tuning the implications for managing the perceptions of trust and justice under different scenarios for better performance level.

On the dependent side, an important reflection from strategic point of view can be to consider both short term and long term perspectives of performance. It can be expected that short-term and long-term projections of performance may gain varying weights depending upon the contingency factors. An investigation in this direction can shed light on the strategic use of the perception of justice and trust level for short and long term prospects of performance. It goes without saying that both macro and organizational level analyses can multiply the future research directions of two possible scenarios stated above.

This thesis contributes majorly to literature in the field of international entry mode and
strategic decision making. The finding of this study largely confirms the theoretical arguments of the literature pertaining to trust and justice. It also tests how perception affects the outcome of strategic decisions. In short, besides the impact from the environment and the conditions of the organization, trust may be considered as a major tool or a deciding point for foreign investors to select a country for future transactions. It may also be one of the strategic tools for the managers to control the performance of the organization.
4.4. Future Directions
Bibliography


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BIBLIOGRAPHY


Appendix

Copies of Published Papers from Thesis