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## **Exploring Best SHRM Practices-Trust Relationship: An Empirical Approach**

**Keywords:** SHRM Practices, Perceived Organizational Support, Employee Trust, SEM, Libya

### **INTRODUCTION**

In the economic realities, organizations are constantly changing forcefully due to the pressure of controlling costs by reducing staffs or by asking employees to deliver more with less. Organizations need employees who are willing to contribute beyond their job description. It is the challenge for the organization to deal with the internal capabilities to cope up with the external turbulence. For some time human resource management is reported to have assumed greater importance within organisations (Legge, 1995; Nankervis and Debrah, 1995).

The insecure and uncertain situation of the local citizen in Libya has been further compounded by the uneven application of the regulatory standards in oil exploration. There is an inconsistent application of international regulations as different countries have different systems for allocating licenses for oil and gas exploration and different regulations of production. In order to generate a good and sound business strategy, firms need to initially examine and understand their internal organizational strengths and weaknesses.

Since, after the revolution the Libyan oil industry along with the other industries had a massive fall economically, therefore this research wants to identify the strategic management policies of the Libyan Oil companies that survived during the war and have flourished after the war. Libya's oil sector long the lifeblood of this desert nation, has made a surprising recovery since the country's 2011 revolution. Libya's oil and gas industry accounts for about 90 percent of government revenue, and officials say a broad understanding of the sector's importance has helped spare the country from episodes like the deadly January attack by militants on a gas field just across the border in Algeria. Oil industry reserves in Libya were first developed in nineteenth century extracting under existing market conditions. Libya's oil production has been impressively restored after months of conflict and insecurity. However, considerable uncertainty surrounds the future of the oil sector and the political regime that will govern it. Revolution is considered as a negative incident that causes the demise of an organization. Managers who fail to recognize the negative impact of revolution and the risk exposure of their companies and does no crisis planning find them in very bad situation. The economy of Libya relies mainly upon revenues from the oil industry, which contribute almost all the export earnings and around one quarter of the country's GDP (Belman, 2007).

Due to rapid growth and advancement in technology, and the degree of worldwide competitions, it is urged that the companies need to maintain its growth and gain competitive advantage in future through the contribution of SHRM role. The HR managers are very essential for the success of the company. HR delivers alignment between organizational success and employee's performance effectively. This major role of HR managers motivates to conduct this study contributing to the pertaining literature. Much of the previous researches focused on the relationship between HRM practices and organizational performance, but very few studies focused on the effect of SHRM practices on perceived organizational support and trust of employees (Şendoğdu, Kocabacak, and Güven, 2013). Thus the main purpose of this paper is to

examine the linkage between best strategic human resource management (SHRM) practices, perceived organizational support and employee trust. The proposed framework and findings intends to aid the understanding of the perceived organizational support that mediates between SHRM practices and employee trust.

### **SHRM and Trust**

A significant body of literature has suggested specific SHRM practices which are considered to promote attributes in human resources that can help the organization to gain competitive advantage. Trust, being a feeling, can be described as a psychological state (Rousseau et al, 1998). Pneumatic reflects higher aspects of commitment that emerge from one's being. Morgan and Hunt (1994) suggest that trust is a precursor of relational commitment, i.e. the state of commitment having been achieved. Rotter (1967) defined trust as expectancy held by an individual or a group that the word, promise, verbal or written statement of another individual or group can be relied upon. Along with this definition trust in leader is generally defined as faith in and loyalty to the leader (Ngodo, 2008).

Employees' trust on their organization is a prerequisite for the long-term and sound relationship between the organization and its employees. A good and trust-based relationship can help reduce the different conflicts within the organization, improve job satisfaction and work efficiency, and lower transaction and management costs. The risks and uncertainties faced by organizations, especially in this modern era of fierce competition for talented personnel, make organizational development through improvement of trust. Moreover, Morgan and Hunt (1994) provided commitment trust theory and concluded the concept of commitment and trust to be an important factor to maintain the relationship. They argued for a focus on theory building rather than theory testing, and an approach to developing definitions of relational constructs.

Pahl and Richter (2009), mentioned that an employee trust is hard to identify the value statements about the working ethics and attitude to serve goal of organizational culture. HRM need to pay attention on the specific characteristics of employees like structure, management policies and practices, technological systems and the corporate values and behaviour of leaders must be taken into consideration. Trust influences employee reactions and affects the success and effectiveness of human resource activities. Although research on organizational trust has traditionally focused on its effect on the success of organizational activities, human resource activities may also affect its development. Using exchange theory, (Whitener, 1998) argued that trust was a consequence of the content and process of human resource activities and a mediator of the impact of HR practices on important outcomes. Moorman et al., 1993; Konovsky and Pugh, 1994; Pillai et al., 1999; Ertürk, 2007; Ngodo, 2008) have found that trust is an important mediator.

Decision made by the organization must be informed to the employees as a process of decision making. Through this approach, a company not only gains the employee's trust but also increases company benefits from the direct cooperation of the employees. Furthermore, Kim and Mauborgne (2003) acknowledged that a fair decision making process influence the decision to trust. When employees feel that the decision taken by the organization affects them was fair the trust towards organization increases effectively. Thus there is a question arise: how the organization can gain trust of their employees when they do not have interactions on the daily basis with the leaders of top management. Thus human resource management is the important aspect that creates and maintains organizational trust through an effective communication process between managers and employees generating the feelings of trust.

Research focusing on enhancing trust among employees is not new as a desirable attribute and have been extensively investigated by studies like (Brown, Metz, Cregan, and Kulik, 2009; Dirks and Ferrin, 2002; Graham and Tarbell, 2006; Kramer and Tyler, 1996; Mayer and Davis, 1999). Trust was also linked with various other constructs like work behavior (Konovsky and Pugh, 1994), employees' performance (Mayer

and Davis, 1999), intention to turnover (Albrecht and Travaglione, 2003), problem-solving (Guest and King, 2004), level of openness within a top management team (Taylor, Levy, Boyacigiller, and Beechler, 2008), support for authorities (Tremblay, Cloutier, Simard, Chênevert, and Vandenberghe, 2010), satisfaction (Eskildsen and Nussler, 2000), and organizational commitment (Herrbach, Mignonac, Vandenberghe, and Negrini, 2009; Meyer and Smith, 2000). Traditional HRM practices and policies focused on improving functions like training, selection, health, safety and performance appraisals and the like focus on improving communicational skills, internal ladders, motivation, procedural justices and so on have also been developed within the organization (Schuler et al., 2001, Ulrich, 1998). But it had been argued that such a practice may affect the climate of trust reinforcing the validity of the psychological contract in the organization. Thus it is obvious to investigate the role of SHRM towards building and developing employee trust. The following hypothesis are therefore, proposed:

H1: SHRM practices have a positive influence on employee trust.

### **POS as Mediator**

POS as mediator is well established in the literature and has been researched from various perspectives. This includes resource based view (RBV), knowledge management (KM) contingency approach, organizational learning (OL) theory and social exchange theory. POS is defined as “the degree to which the employees believes that the organization values their contribution and well-being fulfilling the socio-emotional needs”. There are three antecedents of POS; they are fairness, supervisor support and organizational rewards. Eisenberger et al., (1990), mentioned that perceived organizational support play a role of generating trust that would fulfil its exchange obligations of rewarding employees providing their efforts for the organizational success.

Furthermore, Rousseau (1995) exchange relationship is described through the employment relationship between employees and organization. There have been many researches on the exchange relationship potentials within the organization, but the influence of perceived organizational support that refers to the “global belief of the employees to which extent the organization values their contribution and care about their well beings” have not critically examined (Masterson, Lewis, Goldman, and Taylor, 2000).

Exchange of employee’s efforts and loyalty for the organization has been examined by many organizational theorists. The characterization of the relationship between employee and employer leads to attainment and treatment of employees. Employees that are treated well are known for the affective commitment in the organization by exceeding work responsibilities, flexibility to organizational problems and opportunities (Aselage and Eisenberger, 2003). Consequently, the following hypothesis is proposed:

H2: POS mediates the relationship between SHRM practices and employee trust.

## **THEORETICAL BACKGROUND**

### **SHRM and SET**

A theoretical framework consists of concepts, together with the definitions and existing theory that are used for the study. The framework demonstrates the theories and concepts that are relevant to the research and the broad field of knowledge. Underpinning theories in the research strengthen the study through the explicit statement of theoretical assumptions connecting the researcher’s existing knowledge on the basis of hypothesis and choice of research methods.

Social exchange theory (SET) is one of the most influential paradigms understanding workplace organizational behavior. Social exchange involves a series of interaction generating obligations. SET is usually seen as interdependent and contingent in action of one person on another person. Social exchange consists of the peoples interacting with each other’s and waiting for their response. Social behavior is the

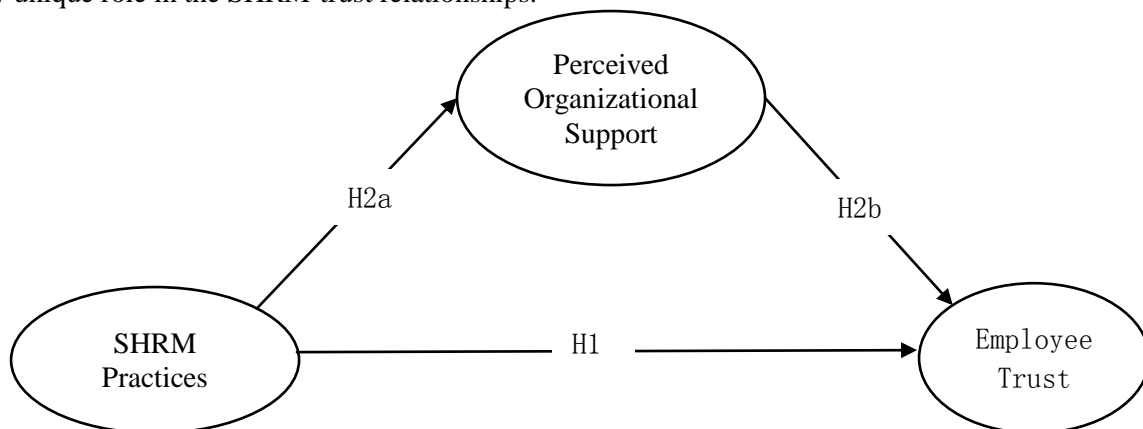
result of an exchange process. The main goal of the change is to maximize benefits and minimize costs. According to the theory, both benefits and risk are the association of exchange relationships. According to Baker (2001), social exchange theory is derived from interactionism using economic cost benefit analysis. . McCool and Moisey (2001), mentioned that social exchange theory is about understanding the exchange of resources between individuals and group. Wikhamn and Hall (2012), mentioned that social exchange theory enables to describe motivation between employee behaviours and attitudes.

Social exchange theory provides theoretical underpinning for the study predicting organizational support for the employee trust based on the quality of relationship exchange between managers and employees of oil and gas companies in Libya. A theoretical alignment between SHRM and organizational support can be determined by social exchange theory. In the past years numerous researches have been conducted on the trust and commitment of individuals, groups, organizations in the social exchange relationship from various perspectives.

The employee–organization connection can be taken as a social exchange relationship between the employee and the organization, and organizational commitment as the employee’s psychological attributes and feelings after the establishment of such relationship. Any kind of risk perceived by employees in the organization will affect their trust in the organization. This phenomenon can be explained using the social exchange theory. The employee–organization relationship is a social exchange relationship: the organization invests in employees who then return something to the organization. According to the social exchange theory, employees’ trust in the organization is also a resource for which the organization has to provide reasonable payment and a good working environment. If there is insufficient organizational investment in this aspect, employees’ return is affected (Tsui, Wang, and Zhang, 2002). Employee perceptions of their relationships within the organization can be understood from the social exchange theory perspective. Two major types of social exchange relationships were established by researches on employee with the organization. They are perceived organizational support (POS) and relationship with the supervisors (Lee, 2007).

**PROPOSED RESEARCH MODEL**

Following the previous discussions, the research model presented in figure 1 perceives employee trust emerging from the best SHRM practices, exercised at both operational and strategic level in the company. The main value in this framework lies in the reflection of factors and their relationships that appear to play unique role in the SHRM-trust relationships.



**Figure1: SHRM Practice system**

In this study, the field of SHRM research is discussed critically for the improvement and advancement of literature on HRM systems. HRM increases the quality of HR which consumes a source of sustainable competitive advantage according to resource based view. In order to link organizational and employee

goals, organizational commitment is considered as the main factor (Ahmad and Schroeder, 2003). Best SHRM practices are expected to enhance employee trust by promoting inimitable attributes in HR.

## **METHODOLOGY**

### **Sampling and data collection**

This study uses probability sampling technique with simple random sampling approach for the data collection. In Libya there is only one government owned company, National Oil Corporation of Libya (NOC) that have the power to dig the oil. A survey was undertaken to gather all the appropriate data by use of a structured questionnaire. In order to achieve sufficient sample size and generalizability of the result the sample frame for this study consisted of all 52 oil and gas companies in Libya that employed at least 50 employees. The population was drawn from a telephonic conversation with the HR department. After the telephonic conversation with the oil companies it was found that there are approximately 1906 low and middle level managres. Thus 1906 are considered as a total population for the study.

The questionnaire was pre-tested through in-depth discussions with academics and professionals in the area of human resource management. The final questionnaire included 57 items. To ensure that the HR managers of the sample firms were willing to participate in the questionnaire it was decided to exclude company privacy concerns. A total of 349 questionnaires were returned. Of these eighteen questionnaires were discarded because they were unanswered. The overall response rate was 18.3 percent. Considering that the total population of this study consists of 1906 HR managers, then the minimum sample size should be around 320 HR managers (Saunders et al., 2000).

## **RESULTS AND DISCUSSION**

The study hypothesised a significant influence of SHRM practices on perceived organizational support and employee trust in the Libyan oil and gas companies. The hypothesised model was evaluated using goodness fit indices in order to confirm the structural model fit that was further also accepted by Cunningham (2008) who mentioned that support for the hypothesised model can be achieved with an effective and acceptable goodness fit criteria. Structural equation modelling (SEM) was used to confirm the hypothesised model in the form of structural model. According to Byrne (2013), “SEM is particularly valuable in data analysis where the patterns of inter-relationships among the constructs are specified according to a prior established theory. SEM has the flexibility to model relationships amongst multiple criteria and predictors and statistical testing is prioritised empirically through the CFA (Hoe, 2008).

Measurement model for the underlying constructs that is provided with the path diagram. In each of the measurement models, multiple items are used to measure each underlying factor. However, if items become redundant, the measurement model needs to be re-specified by removing the redundant items (Arbuckle, 2005; Hair, Black, Babin, Anderson, and Tatham, 2006; Kline, 2005). Parsimonious unidimensional estimation can be achieved by removing the redundant items (Gerbing and Anderson, 1988). The discriminant validity is achieved when the model and its constructs are free from redundant items. Thus AMOS software was used to identify the pair of redundant items in the model in terms of high modification indices. In this study, the data set is validated using content validity, construct validity, and convergent validity using structural equation modelling technique. The factor loadings for these measures were all above 0.60 indicating that standardised estimates for these measures were deemed to be statistically significant at  $P < 0.001$ . From the measurement model of the constructs, the discriminant validity criteria is confirmed as the correlation between the constructs does not exceeded 0.85.

In the measurement model, it was noticed that the AVE for all the variables were above the required level of 0.50. Thus, it is confirmed that the criteria of AVE was satisfied. The result on AVE also provided an additional support for convergent validity. It was also possible to provide the discriminant validity

between the factors due to positive definite issue of the matrix. Construct validity is confirmed based on goodness-fit-indices Hsieh and Hiang (2004) reported in the earlier section. Evidence of convergent validity is found based on high factor loadings (greater than 0.50) of all factors (Holmes-Smith, Coote, and Cunningham, 2006).

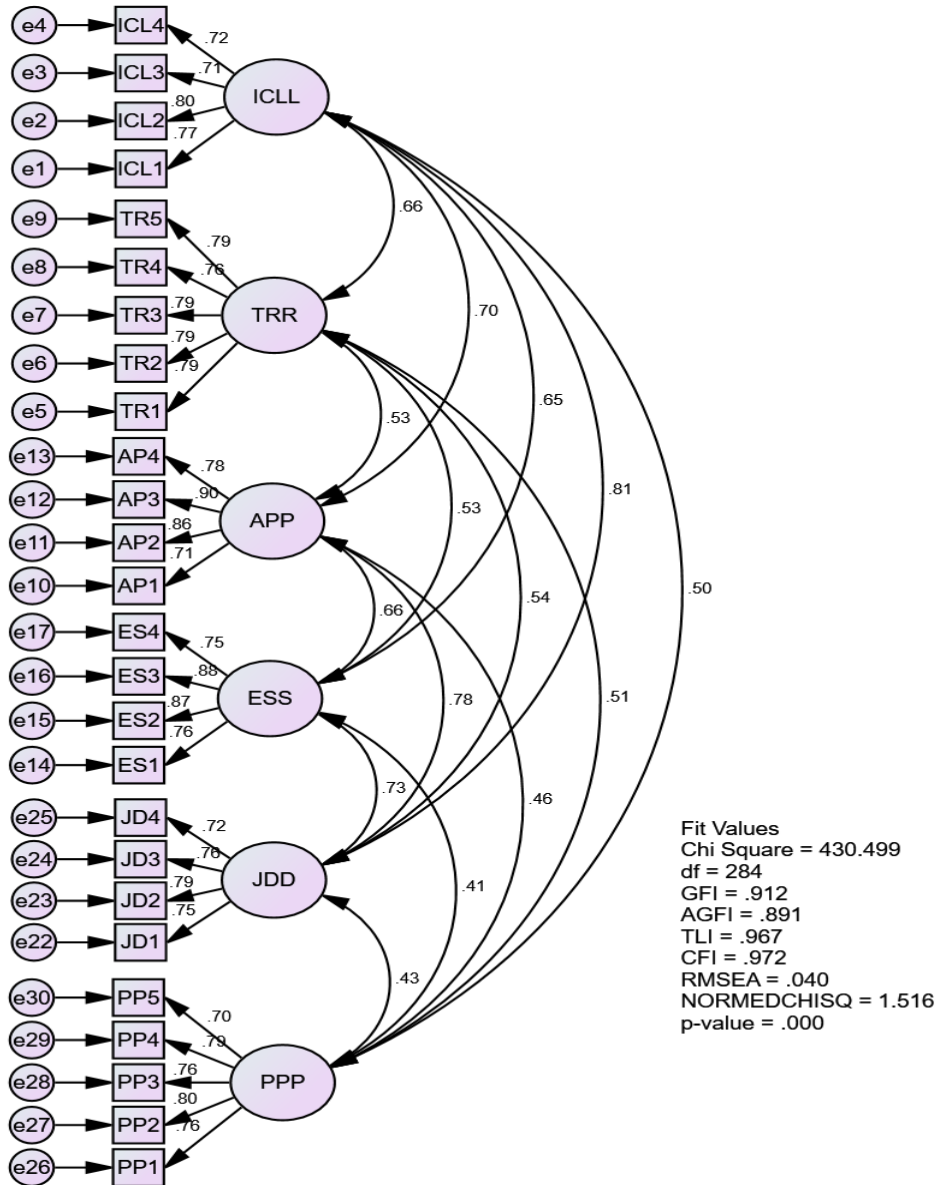


Figure 2: Measurement Model for the Variables

Table 1: Reliability and Validity Test for Measurement Model

Endogenous	Path	Exogenous	Factor Loading	C.R	AVE
<b>Internal Career Ladder</b>				0.839	0.567
ICL1	<---	ICLL	0.755		
ICL2	<---	ICLL	0.795		
ICL3	<---	ICLL	0.721		
ICL4	<---	ICLL	0.738		

<b>Training</b>				0.888	0.615
TR1	<---	TRR	0.794		
TR2	<---	TRR	0.788		
TR3	<---	TRR	0.793		
TR4	<---	TRR	0.759		
TR5	<---	TRR	0.785		
<b>Appraisal</b>				0.888	0.666
AP1	<---	APP	0.709		
AP2	<---	APP	0.859		
AP3	<---	APP	0.902		
AP4	<---	APP	0.780		
<b>Employment security</b>				0.890	0.670
ES1	<---	ESS	0.760		
ES2	<---	ESS	0.872		
ES3	<---	ESS	0.883		
ES4	<---	ESS	0.751		
<b>Pay for Performance</b>				0.874	0.581
PP1	<---	PPP	0.758		
PP2	<---	PPP	0.794		
PP3	<---	PPP	0.761		
PP4	<---	PPP	0.793		
PP5	<---	PPP	0.703		
<b>Perceived Organizational Support</b>				0.926	0.642
PO1	<---	POS	0.787		
PO2	<---	POS	0.783		
PO3	<---	POS	0.844		
PO4	<---	POS	0.819		
PO5	<---	POS	0.840		
PO6	<---	POS	0.751		
PO7	<---	POS	0.782		
PO8	<---	POS	0.713		
<b>Employee Trust</b>				0.892	0.579
ET1	<---	ET	0.770		
ET2	<---	ET	0.771		
ET3	<---	ET	0.752		
ET4	<---	ET	0.755		
ET6	<---	ET	0.739		
ET7	<---	ET	0.776		

Note: C.R – Composite Reliability; AVE – Average Variance Extracted

### Structural Model

In order to confirm that the structural model fit the data, the model was evaluated in the terms of goodness of fit indices. According to Cunningham (2008), a good fit to the sample data provides support for the hypothesised model. For hypotheses testing purposes, parameter estimates together with coefficient values were examined. Parameter estimates are used to generate the estimated population covariance matrix for the model (Tabachnick and Fidell, 2001). Coefficients' values are derived by dividing the

variance estimate by its standard error (S.E). When the critical value (C.R) or z-value is greater than 1.96 for a regression weight (standardised estimates), the parameter is statistically significant at the .05 levels. After the modification indices and removal of few redundant measured items, Figure 3 shows that the fitness criteria are achieved.

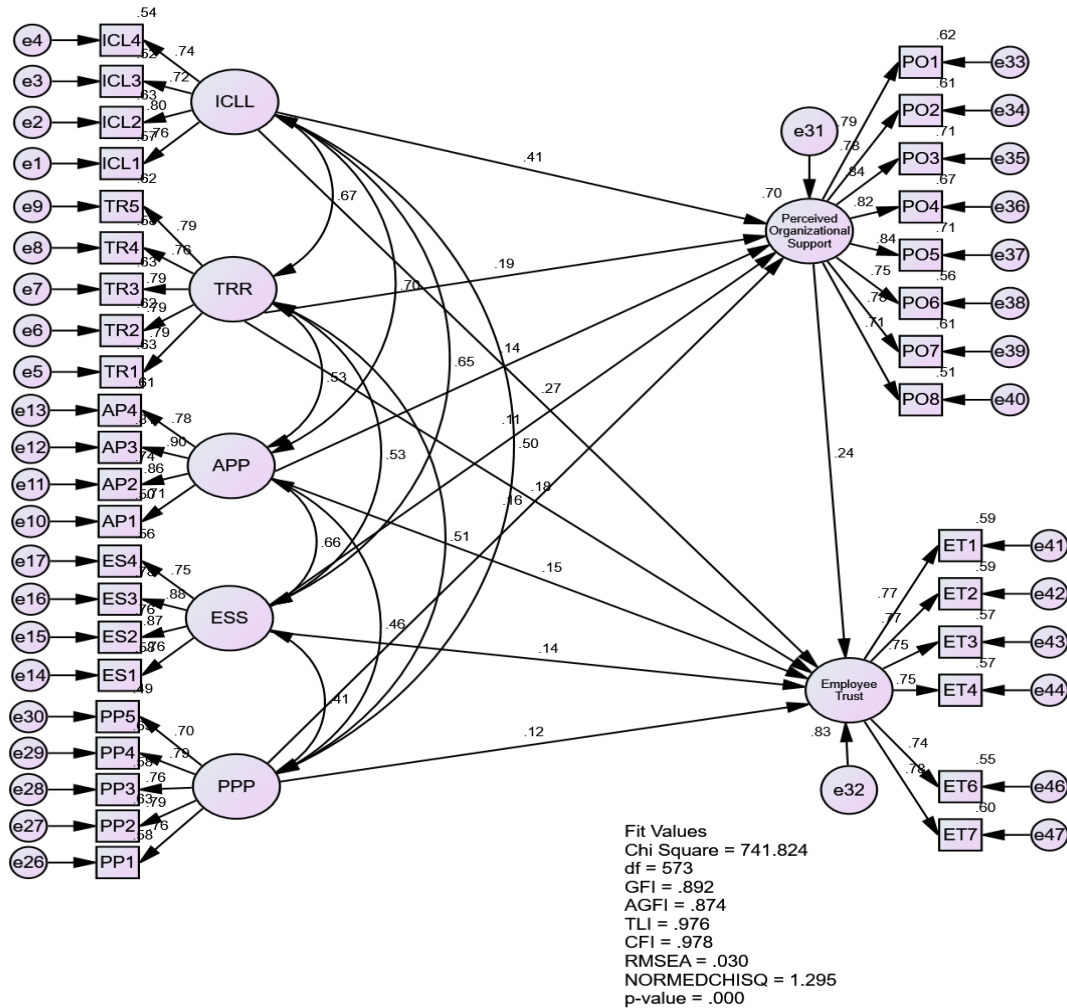


Figure 3: Final Re-specified Model

Table 2: Standardized weights for Structural Model

Endogenous	Path	Exogenous	Estimate	C.R.	P
POS	<---	ICLL	0.401	5.062	***
POS	<---	TRR	0.212	3.184	0.001
POS	<---	APP	0.151	2.180	0.029
POS	<---	PPP	0.170	3.181	0.001
POS	<---	ESS	0.120	1.886	0.059
ET	<---	ICLL	0.284	3.496	***
ET	<---	TRR	0.217	3.387	***
ET	<---	APP	0.168	2.548	0.011



ET	<---	ESS	0.161	2.650	0.008
ET	<---	PPP	0.138	2.678	0.007
ET	<---	POS	0.256	3.507	***

According to Klein, Ettenson, and Morris (1998), the four major fitness indices like GFI, TLI, RMSEA or CFI are used for evaluating the model fit. Similarly, Smith (2006) stated that there must be at least three fitness indices significant in order to confirm the model fit. This study adopts the major fitness indices that are commonly used in research. The absolute values like GFI and RMSEA, incremental values includes CFI, TLI and parsimonious values like chi-square/df were used to confirm the model fit. An examination of the goodness-of-fit indices showed that the model fitted the data effectively ( $\chi^2 = 741.824$ ,  $df = 573$ ,  $p = .000$ ). The GFI=.892, AGFI=.874, CFI=.978, TLI=.976, RMSEA =.030 and  $\chi^2/df = 1.295$ . The results confirmed that the system of SHRM has significant positive effects on employee trust. However, absolute fit index value GFI was found to be very near to the acceptable value of greater than 0.90. According to previous studies performed by (Chang and Chen, 2009) with GFI = 0.89 and AGFI = 0.86, claimed AGFI greater than 0.80 whereas; GFI to be greater than 0.90. Similarly, (Chau and Hu, 2001) provided the cut off value of AGFI as above 0.80. (Tabachnick and Fidell, 2013) further added, “AGFI value adjusts the GFI based on the degree of freedom and AGFI tends to increase with sample size”.

From the square multiple correlation result, it is noted that the model fit criteria are solved and there is a high correlation between the collaboration and networking with labour productivity. With the significant standardised regression weights of all the constructs and items, the overall square multiple correlation was found to be 0.83 (75%) which is considered a very active and important finding of the study.

The path estimates between SHRM components was found to be (standardized path coefficients  $\beta = 0.217$ ,  $t = 3.387$ ,  $p = 0.000$ ) for training on employee trust, (standardized path coefficients  $\beta = 0.284$ ,  $t = 3.496$ ,  $p = 0.000$ ) for internal career ladders on employee trust, (standardized path coefficients  $\beta = 0.138$ ,  $t = 2.678$ ,  $p = 0.007$ ) for pay for performance on employee trust, (standardized path coefficients  $\beta = 0.168$ ,  $t = 2.548$ ,  $p = 0.011$ ) for performance appraisals on employee trust. According to Guest, et al. (2003) concerns over the validity of data gathered centrally from senior HR managers in terms of how reliable and valid a measure of HRM such responses really provide for commitment are performed. Employee trust is hard to identify the value statements about the working ethics and attitude to serve goal of organizational culture. Unlike most previous studies of HRM, the data on SHRM implementation have been gathered from low or middle level managers within the oil and gas industries of Libya.

### CONCLUSION

The finding of the study also showed that perceived organisational support played a partial mediating effect between SHRM practices and employee trust. The lack of organizational support aggregate performance along with individual’s personality. Even though the direct link between HRM practices and labour productivity was significant, with the appropriate usage of organizational support, employees are able to contribute to enhance organizational performance. Libya as a developing country and Libyan oil and gas companies contributing to the country’s GDP must be able to motivate their employees by compensating based on their performance. Employees and managers must have good cooperative skills and work in the field as a team in order to overcome the problems and increase trustworthiness. Furthermore, managers must consider SHRM as a strategy to get the work done in an effective manner without any conflicts among the employees.

Compatibility between SHRM practices is very important in order to increase trust of employees. SHRM practices whose HR Principles are consistent with the high commitment HR Programs would be more likely to support these programs and enforce their application. Managers understand the internal requirements for successful strategy implementation and they insist that careful attention be paid to the details required for first-rate execution of the chosen strategy. They personally lead the process of strategy implementation and execution. Several main challenges like building an organization capable of carrying out strategic plan. Developing strategic objectives, linking the motivation and reward structure directly to achieve result, initializing policies and procedures for proper implementation of strategies is the crucial part for the study.

The main implication for managerial implication is that the strategic role of the manager in the organization must include strategies to increase trust of employees in order to increase the relationship between managers and employee. From the validation of the framework, it is obvious to make sure that all the HRM functions must be in accordance with increasing productivity along with in line with the organizational objectives. Thus, operating in a stable and dynamic environment, managers and employees need to work as a team in order to develop new knowledge and complete tasks for effective productivity. Skills that is developed on the foundation of traditional literacy and research, technical and analytical skills in the organization in order to interact meaningfully. It is very crucial for the managers to understand the estimated value of commitment and trust for the employees so as to identify and manage the cost and time allocation. Thus supporting the organization with more HRM practices including skills and abilities for qualities trained and developed employees that can enhance the communication, negotiation and the process of participation.

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