

# The interaction effect of social exchanges on the relationship between organizational climate and psychological contract

The  
interaction  
effect of social  
exchanges

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## Abstract

**Purpose** – The purpose of this paper is to examine the interaction effect of organizational climate and social exchanges and how they fuse to affect psychological contract in the public service in Uganda.

**Design/methodology/approach** – The paper adopts a cross-sectional descriptive and analytical design. The authors employ structural equation modeling to test hypotheses. Using proportionate and simple random sampling procedures, a sample of 346 respondents was drawn from Uganda public service commissions and agencies of which a response rate of 61.5 percent was obtained.

**Findings** – The magnitude effect of organizational climate on psychological contract depends on social exchanges; implying that the assumption of non-additivity is met.

**Research limitations/implications** – Only a single research methodological approach was employed and future research through interviews could be undertaken to triangulate.

**Practical implications** – In order to boost the employee-employer relationship of public servants in Uganda commissions and agencies, managers should always endeavor to find a viable organizational climate-social exchanges mix or blend that can add value to employee-employer relationship.

**Originality/value** – This is one of the few studies that focus on testing the interactive effects of social exchanges on the relationship between organizational climate and psychological contract in Uganda public service commissions and agencies.

**Keywords** Interaction effect, Public service, Psychological contract, Moderator variable, Organizational climate, Social exchanges

**Paper type** Research paper

## Introduction

There is a lot of literature on the concept of psychological contract as a sound concept that describes present employment relationships (Erkutlu and Chafra, 2013; Guest, 2007; Jardat, 2012). Rousseau (2001) defines the psychological contract as individual beliefs, shaped by the organization, regarding terms of an exchange agreement between individuals and their organization. The plethora of literature argues that the study of employment relationship through the lens of the psychological contract is arguably well suited to an individualized labor market (Rousseau, 2004). This is so because to Rousseau, individuals tend to be engaged in more idiosyncratic deals with their employers. Based on social



exchange theory (SET), the terms of the exchange agreement under the psychological contract assume that the ability to deliver what was promised is a key point in explaining individual responses at work. There exists a lot of literature on what the traditional outcomes related to psychological contract fulfillment (or lack thereof) are; including but not limited to organizational commitment (Sturges *et al.*, 2005), organizational citizenship behaviors (Turnley *et al.*, 2003), and turnover intentions (Sutton and Griffin, 2004).

Despite the growing amount of research about psychological contracting, little theoretical and empirical attention has been paid to the antecedents of psychological contract management. Indeed, most psychological contract research has focussed on the outcomes of psychological contract breach and somewhat neglected the situations caused by the dynamic environment that affect psychological contract. Moreover, although some research has paid attention to the several predictors of psychological contracting (Gallagher, 2008; Suazo *et al.*, 2009), which include induction/training, fairness/justice, needs, communication, discretion, corporate social responsibility, recognition, and pay/benefits/compensation, recruitment, performance appraisal and employee handbooks, this bulk of research on the subject has missed out on the contributions of organizational climate and social exchanges as probable predictors.

In a meta-analytic review of organizational climate, Carr *et al.* (2003) established that organizational climate resulted into individual-level outcomes of job performance, psychological well-being, and employee withdrawal through their impact on organizational commitment and job satisfaction. Other studies have come up with a number of outcomes some of which were individual oriented and others organizational oriented. Employee-oriented outcomes of organizational climate included trust in the organization and stronger feelings of commitment toward the organization. These findings intuit well and follow SET's proposition that employees will be as committed to the firm as they feel the organization is committed to them. Other scholars like Witt (1991) identified job satisfaction perceptions, task performance and contextual job performance and an employee's intention to leave the organization as possible outcomes of organizational climate. Important to note is that although these studies capture organizational climate being linked to the concept of performance (Lucas and Kline, 2008; Weyland, 2011), none of them related organizational climate to psychological contract, yet studies in psychological contract have linked it to performance. We argue that a relationship exists between organizational climate and psychological contract; and psychological contract and social exchanges.

Social exchanges refer to high level of trust between employees and the organization (Song *et al.*, 2009; Shore *et al.*, 2009), SET argues that obligations are generated through a series of interactions between parties who are in a state of reciprocal interdependence. Based on the works of Bal *et al.* (2010), social exchanges moderates the negative relationship between psychological contract breach and performance; meaning that social exchanges could be related to psychological contract. Rousseau's (2012) assertion that our actions grow out of previous states that shape what we are able to perceive and how we interpret them supports this ideology. We hence argue that the significant relationship between social exchanges and performance and psychological contract suggests that an association may exist between social exchanges and psychological contract.

The objective of this paper is to bring further insight into the effect of organizational climate on psychological contract. We first argue that organizational climate and social exchanges have an influence on the fulfillment of the psychological contract. Based on the works of Friedrich (1982) we maintain that when two predictor variables exist to

cause an effect on a criterion variable, it is not enough to assume that it is only the main effects that influence that criterion variable. Friedrich (1982) asserts that when the research design involves two or more independent variables, there is always more to consider than simply the “main effects” of each of the independent variables. Against that background, we propose and test a conceptual model that relates the three variables and includes a moderator variable to test for interaction effects. To do so, we use perceived social exchanges as the key moderating variable on the relationship between organizational climate and psychological contract. This approach first extends the psychological contract literature in that we claim that a mix of organizational climate and social exchanges creates a multiplicative effect of organizational climate and social exchange that results into a far higher predictive power of psychological contract as compared to either of the main effect predicting it alone. Moreover, we argue that grounding of both organizational climate and social exchanges in the psychological contract literature provides theoretical arguments for their use in predicting employer-employee relationships.

## Literature review

### *The antecedent role of organizational climate on psychological contract*

Extant literature has linked organizational climate to different outcomes for example, increased commitment (Weyland, 2011), corporate success (Lucas and Kline, 2008; Weyland, 2011), better performance (Weyland, 2011), accountability (Lin and Chang, 2009), integrity (Lin and Chang, 2009), return of poached employees (Weyland, 2011) and knowledge management (Lucas & Kline, 2008). All these outcomes indicate performance in given specific areas, but none of these studies associate organizational climate to psychological contract, yet psychological contract plays a vital role in employee-employer relationships in the organization. This implies that, there is a dearth of literature on how organizational climate is linked to psychological contract. According to Rousseau (1998), psychological contract performance involves employer obligations and employee obligations. Employer obligations refer to the promises and commitments employers usually make to their employees and the extent to which they are fulfilled; while employee obligations are the promises and commitments employees usually make to their employers and the extent to which they are fulfilled.

Since organizational climate has been linked to performance in other areas, we construe that it could also be linked to psychological contract. The question at hand is how organizational climate develops within organizations and how these are linked to fulfillment of employer obligations and employee obligations. Effort by Gallagher (2008) to link organizational climate to psychological contract in form of congenial environment found no evidence of such link. However in their study, Bal *et al.* (2010) found a positive association between psychological contract to performance; yet performance has already been linked to organizational climate. Since there exist a link between psychological contract and performance and organizational climate and performance (Sturges *et al.*, 2005), then we would assume that organizational climate is associated with psychological contract. We hence hypothesize as follows:

H1. Organizational climate is positively related to psychological contract.

### *The antecedent role of social exchanges on psychological contract*

The relationship between an employee and their organization is often described as an exchange relationship (Cropanzano and Mitchell, 2005; Shore *et al.*, 2009).

Such relationships can be classified under different themes, e.g. social exchanges, economic exchanges, stakeholder interest guided exchanges or leader member exchanges. According to Shore *et al.* (2009) and Song *et al.* (2009), social exchanges feature a high level of trust between employees and the organization. SET argues that obligations are generated through a series of interactions between parties who are in a state of reciprocal interdependence. A basic tenet of SET is that relationships evolve over time into trusting, loyal, and mutual commitments as long as the parties abide by certain “rules” of exchange (Cropanzano and Mitchell, 2005). Rules of exchange usually involve reciprocity or repayment such that the actions of one party lead to a response or actions by the other party. For example, when individuals receive economic and socio-emotional resources from their organization, they feel obliged to respond in kind and repay the organization (Cropanzano and Mitchell, 2005).

Bal *et al.* (2010) assert that the introduction of high-social exchange relationship creates a positive change on the negative relationship between psychological contract breach and performance. The significant relationship between social exchanges and performance and psychological contract suggest that an association exists between social exchanges and psychological contract. Rousseau’s (2012) assertion that our actions grow out of previous states that shape what we are able to perceive and how we interpret them; actually supports this ideology. We therefore hypothesize as follows:

*H2. Social exchanges are positively related to psychological contract.*

*Moderating role of social exchanges*

Importantly, in recent years, research has moved from demonstrating a relationship between climate and outcomes toward examining the process through which climate has its effect on outcomes (Schneider *et al.*, 2011b). In support of the linkages, collective attitudes, motivation, and behaviors have been shown to be mediators between climate and performance outcomes at the organizational level (e.g. Patterson *et al.*, 2004), group level (e.g. Neal and Griffin, 2006; Schneider *et al.*, 2011a), and individual level (e.g. Carr *et al.*, 2003; Parker *et al.*, 2003). However none of these studies has linked social exchanges as a mediator of the organizational climate – performance relationship. We would infer that since performance and psychological contract and associated positively; then social exchanges could also mediate the relationship between organizational climate and psychological contract.

The moderator role of organizational climate has been studied in various service relationships with emphasis on the contact employees’ performance and/or orientation. For example Ehrhart (2004) studied the mediating role of organizational climate on leadership style – citizenship behaviors relationship at the group level at the individual level, Walumbwa *et al.* (2010) established the mediating role of organizational climate on the leadership-commitment relationship. According Varki and Wong (2003) customers with high-social exchange relationship with their superiors tend to participate more in the solutions of any service-related problems and are more conscious of obtaining fair treatment. In another study, Laroche *et al.* (2003) verified that a moderating effect exists of social exchanges in the relationships between customer-employee links ranging from physical intangibility and mental intangibility to perceived risk of customers. Customer-employee links would assume the concept of a two party expectation of each other; which indeed is a reflection of the psychological contract, but the study did not consider the element of organizational climate. Therefore, based on these prior arguments,

we posit that social exchanges can also moderate organizational climate-psychological contract relationship. We hence hypothesize as follows:

H3. The influence of organizational climate on psychological contract varies with the level of social exchanges.

The interaction effect of social exchanges

**Methodology**

In this section, we provide the research design, population, sample size and sampling procedure. We also discuss the control of common methods bias (CMB) and data collection instrument, measurement of variables, validity and reliability.

*Research design*

The study adopted a cross-sectional descriptive and analytical design examining organizational climate, social exchanges and psychological contract for public servants in Uganda. We undertook a survey of a large scale and comprehensive survey of public servants covering a random sample of employees in Uganda’s commissions and agencies. This study picked particular interest in government agencies and commissions because in the public sector the commissions and agencies are more likely to be in position to implement the psychological contract; they are allowed flexibility and have better Human Resource (HR) Management structures compared to the other ordinary public service bodies like ministries. The list contained a total of 2,590 employees, i.e. commissions (1,509) and agencies (1,081) (see Table I).

*Population, sample size and sampling procedure*

The study population consisted of 2,590 employees in the public service’s commissions and agencies. In this survey we sought 95 percent confidence level and computed a sample of size of 346 employees based on sample size determination guidelines by Yamane (1973). The details are shown in Table I.

This study was based on a representative sample of all employees who work in the government agencies and commissions. This is so because the employees form the unit of analysis. To get the actual respondents, we used a proportionate simple random sampling approach. The 346 respondents were identified basing on proportional distribution of employees in the commissions/agencies. The selection criterion was based on the length of the largest numbers on the population list. We selected digits in groups of two and three for the numbers that were in tens and hundreds, respectively. Consistent with rules of sampling, we only selected cases from the list for the sample which corresponded with the identified number from the table. Using this process, we ignored all repeated numbers and numbers that were not on the population list.

Organizations	Number	Selected	No. of questionnaires returned	Response rate (%)
Commissions	1,509	202	128	61.5
Agencies	1,081	144	80	38.5
Total	2,590			
Target sample according to Yamane (1973) sample size selection	346	346	208	61.5

**Sources:** Auditor General’s Audit Reports (2012) to Parliament and Ministry of Public Service Payroll (2013)

**Table I.** Population and sample size

We continued this process until we obtained the required sample size of 346. The questionnaire was pilot tested on teachers in public schools; for teachers in these schools experience relatively similar conditions at the workplace as other public service employees. Ambiguously stated and difficult questions were either removed or restated for easy understanding. Data were obtained from both supervisors and subordinates at the workplace. The response rate for the main survey was 61.5 percent. In this paper we present results derived from a sample of 208 usable questionnaires.

#### *Control of CMB*

Consistent with control for CMB and hence common methods variance (Podsakoff *et al.*, 2012; Podsakoff *et al.*, 2006), we applied procedural and statistical techniques. This was done in order to reduce measurement errors (random and systematic errors) which normally threaten the validity and conclusions about the relationships between measures (Podsakoff *et al.*, 2003). We incorporated negatively worded or reversed-coded items in the questionnaires (Hinkin, 1998) to act as cognitive “speed bumps” that require respondents to engage in a more controlled, as opposed to automatically cognitive processing. We also used different scale anchors (Meade *et al.*, 2007; Podsakoff *et al.*, 2003) like extent of agreement and degree of occurrence. In terms of statistical remedy, exploratory factor analysis (Podsakoff and Organ, 1986) yielded many factors from each of the variables of study with no single factor emerging to account for more than 50 percent of the variance in the variable; meaning that no substantial amount of common method variance was present in our study. Also Haman’s single factor test found limited method bias for it extracted 51 factors (eigen-values greater than 1; total variance 86.046) where the first factor (19.801 percent) did not explain majority of the variance (Podsakoff *et al.*, 2003). So this study is devoid of problems of CMB.

#### *Data collection instrument, measurement of variables, validity and reliability*

We used a questionnaire to collect data. The questionnaire had fixed response questions anchored on a five-point Likert scale. According to Podsakoff *et al.* (2012), higher scales have been found to be lengthy and time consuming for respondents to comprehend and respond which may eventually lead to common method variance. So we assumed that a five-point Likert scale was appropriate for our study.

In operationalizing psychological contract we employed some items from the Psychological Contract Inventory (Rousseau, 2000). This tool measures psychological contract in terms of employee obligations, employer obligations and employee emotions. Sample items include: “Overall, how well does your employer fulfill its commitments to you?” and “In general, how well do you live up to your promises to your employer?” For this study, we also introduced some items from the Psychological Contract across Employment Situations (PSYCONES) tool as advised by Psychones (2005) and blended them with Rousseau’s items to enrich the study. From the PSYCONES tool we captured items that do with the “state of the psychological contract.”

For organizational climate, we employed a tool by Munene *et al.* (2003). The tool which clusters organizational climate into different attributes such as information bureaucracy-related experiences, job-related experiences, gender-related experiences, reward-related experiences and supervisor-related experiences; has been used in the African setting to capture views of employees of CARE International Uganda and yielded reliable results. So it was found to be context specific and therefore appropriate for this study. We measured social exchanges based on tools developed by Shore *et al.* (2006).

All measurement items were derived from previously published studies, adapted and tested for validity and reliability. Consistent with Nunnally (1978), Dooley (2004) and Neuman (2006), Chronbach's  $\alpha$  coefficients for all variables were above 0.7, i.e. organizational climate (0.961), social exchanges (0.777) and psychological contract (0.951).

As guided by Anderson and Gerbing (1988) and Medsker *et al.* (1994) we followed a two-step approach, i.e. first, we used AMOS (version 18.0) to conduct a confirmatory factor analysis (CFA) to come up with a measurement models for our variables to confirm these dimensions and test the fit of theoretically grounded model and second, construct a structural equation model (SEM) to test the hypotheses developed from literature review (Jöreskog and Sörbom, 2005). Consistent with the works of Schermeller-Engel *et al.* (2003), and other scholars who have published using SEM, like Ntayi *et al.* (2013), Nkundabanyanga and Ahiauzu (2013), cutoff points of indices for acceptability of model fit at  $\geq 0.95$  for the Tucker Lewis Index, the Normed Fit Index and the Goodness of Fit Index; at  $\leq 0.08$  for the Root Mean Square Error of Approximation and at less than 0.5 for the  $\chi^2$  and Average Variance Extracted at  $> 0.5$  (Fornell and Larcker, 1981). The CFA results reveal acceptable model fit for our measurement models (see results in Table II).

## Results

A total of 208 (i.e. Commissions 108, Agencies 80) usable questionnaires representing 61.5 percent response rate were recovered for our study. Findings indicated that of the 208 respondents; the age group was concentrated on generation Y (51.5 percent), i.e. those born between 1980 and 2000; while generation X, i.e. those born between 1966 and 1979 accounted for 35.1 percent. Meanwhile generation baby boomers (born between 1946 and 1965) accounted for 12 percent and traditionalists (those born before 1946) accounted for 1.4 percent. Of the participants, 57.7 percent were male and 42.3 percent were female. 49.5 percent had attained a degree, 28.4 percent a master's degree and above, 16.8 percent a diploma and 5.3 percent a certificate; implying that our respondents were educated enough to comprehend the questionnaire items and respond appropriately. Interestingly, 30.8 percent had spent three to five years with their organization; 28.4 percent had tenure with their organization of below two years, 24.5 percent between six to ten years 11.5 percent between 11 and 15 years and 7.2 percent had worked with their organization for above 15 years (see Table III).

We run several nested SEMs to establish predictive power of each model, establish the relationships between the variables so as to test hypotheses developed from literature review. In the first model, we put organizational climate alone to predict psychological contract; in the second model we added social exchanges to organizational climate to predict psychological contract. In the third model shown in Figure 1 we added the interactive term (organizational climate  $\times$  social exchanges) to organizational climate and social exchanges to predict psychological contract.

The three models revealed acceptable model fit as shown by the results of the fit indices in Table IV.

Variable	$\chi^2$	df	$\chi^2/df$	<i>p</i>	NFI	GFI	AGFI	TLI	RMSEA	AVE
Cutoff point	$\geq 0.5$		$\leq 5$	$\geq 0.05$	$\geq 0.95$	$\geq 0.95$	$\geq 0.90$	$\geq 0.95$	$\leq 0.08$	$\leq 0.5$
Measurement model	25.467	17	1.498	0.085	0.966	0.970	0.936	0.981	0.049	0.638

**Table II.**  
Summary statistics for measurement model

LODJ 36,7		Frequency	%
	<i>Type of organization</i>		
	Commission	128	61.5
	Agency	80	38.5
<b>840</b>	<i>Job level</i>		
	Supervisor	66	38.7
	Employee	142	68.3
	<i>Gender</i>		
	Male	120	57.7
	Female	88	42.3
	<i>Generation</i>		
	Traditionalists	3	1.4
	Baby boomers	25	12.0
	Generation X	73	35.1
	Generation Y	105	51.5
	<i>Highest level of qualification</i>		
	Certificate	11	5.3
	Diploma	35	16.8
	Bachelor's degree	103	49.5
	Master's and above	59	28.4
	<i>Period spent in this institution</i>		
	2 years and below	54	26.0
	3-5 years	64	30.8
	6-10 years	51	24.5
	11-15 years	24	11.5
	Above 15 years	15	7.2

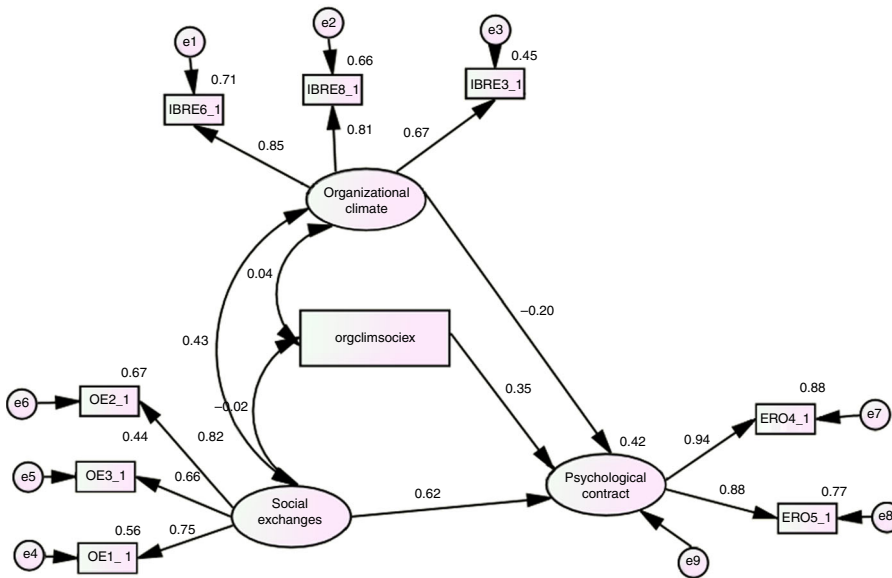
**Table III.**  
Demographic  
characteristics

From the table above we establish that model 3 had better fit of our data for it accounted for the highest variance in psychological contract, i.e. squared multiple correlations (SMC) of 0.418; meaning the model explained 41.8 percent of the variance in psychological contract. We used the results in model 3 (Table V) to test the hypotheses developed from literature.

First we tested for *H1* which stated that organizational climate is significantly and positively related to psychological contract. Correlation results in Table V show that organizational climate significantly correlated with psychological contract ( $\beta = -0.227$ ;  $CR > 1.96$ ) albeit in a negative direction; meaning that as organizational climate goes up by 1 SD, psychological contract goes down by 0.227 SDs. Also the table shows that the standardized total effect of organizational climate on psychological contract was  $-0.197$  meaning that organizational climate explained  $-19.7$  percent of the variance in psychological contract. Although the findings show a significant relationship between the two variables, the relationship is negative. They hence do not render support to *H1*.

Efforts in *H2* to test the relationship between social exchanges and psychological contract yielded positive results. In Table V, social exchanges significantly and positively correlated with psychological contract ( $\beta = 0.933$ ;  $CR > 1.96$ ); meaning that as social exchanges go up by 1 SD, psychological contract goes up by 0.933 SDs. Also the table shows that the standardized total effect of social exchanges on psychological contract was 0.616 meaning that social exchanges explained 61.6 percent of the variance in psychological contract. The findings hence render support to *H2*.





**Notes:** Degree of freedom (df)=22, Probability (*p*)=0.080, Goodness of fit index (GFI)=0.967, Adjusted goodness of fit index (AGFI)=0.933, Normed fit index (NFI)=0.956, Tucker Lewis index (TLI)=0.978, Comparative fit index (CFI)=0.987, Root mean square error of approximation (RMSEA)=0.046, IBRE8\_1, Some managers do not sufficiently encourage divergent views; IBRE6\_1, Information is hoarded and released selectively; IBRE3\_1, Some supervisors come for meetings with pre-determined decisions that cannot be easily changed; OE2\_1, The organization is concerned about my overall satisfaction at work; OE3\_1, (My organization) has made a significant investment in me; OE1\_1, The organization is really concerned about my welfare; ERO4\_1, My organization promised good pay for work for the work that I do; ERO5\_1, My organization promised to improve my future prospects

**Figure 1.** (Model 3): Interaction effect of social exchange on the relationship between organizational climate and psychological contract

	$\chi^2$	df	<i>p</i>	GFI	AGFI	NFI	TLI	CFI	RMSEA	SMC for Psychont
Model 1	5.138	4	0.273	0.990	0.964	0.989	0.994	0.998	0.037	0.005
Model 2	25.467	17	0.085	0.970	0.936	0.966	0.981	0.988	0.049	0.307
Model 3	13.862	22	0.080	0.967	0.933	0.959	0.978	0.987	0.046	0.418

**Table IV.** Fit indices for the different models

In *H3* we sought to establish the moderation effect of social exchanges on the relationship between organizational climate and psychological contract. The model revealed that social exchanges moderate the relationship between organizational climate and psychological contract ( $SE = 0.084$ ,  $CR = 5.451$ ,  $p < 0.001$ ). The inclusion of interactive term (organizational climate  $\times$  social exchanges) in the third model increased the predictive power of organizational climate and social exchanges from 30.7 percent in the second model to 41.8 percent (Table IV). The results show that the interactive-term boosts the main effects (organizational climate and social exchanges) to explain the variance in psychological contract. Since the interaction term is significant (Table V),

**Table V.**  
Paths coefficients for  
the hypothesized  
moderated model

	Unstandardized coefficient	SE	CR	<i>p</i>	Standardized coefficient
Psychological contract←organizational climate	-0.229	0.094	-2.442	0.015	-0.197
Psychological contract←orgclim × sociex	0.459	0.084	5.451	***	0.347
Psychological contract←social exchanges	0.933	0.139	6.702	***	0.616
IBRE6_1←organizational climate	1.000				0.845
IBRE8_1←organizational climate	0.950	0.089	10.690	***	0.815
IBRE3_1←organizational climate	0.785	0.084	9.342	***	0.667
OE1_1←social exchanges	1.000				0.746
OE3_1←social exchanges	1.058	0.128	8.240	***	0.662
OE2_1←social exchanges	1.085	0.106	10.228	***	0.816
ERO4_1←psychological contract	1.000				0.936
ERO5_1←psychological contract	0.910	0.072	12.618	***	0.880

**Note:** \*\*\*Results supported the significance at  $p \leq 0.001$  level (one-tailed)

we therefore maintain that *H3* is supported. In other words, the SEM model used to test the hypothesis is multiplicative meaning that the contribution of organizational climate is dependent on the contribution of social exchanges in building psychological contract (Friedrich, 1982) rendering support for *H3*.

### Discussion, conclusion, implications, limitations and suggestions for further research

#### Discussion

This research investigated and tested the interactive effect of organizational climate and social exchanges on psychological contract in the Uganda public service's commissions and agencies.

Results have indicated that negative and significant relationship exists between organizational climate and psychological contract. This signifies the existing organizational climate in public service negatively affects the psychological contract. These findings are inconsistent with conclusions made by Weyland (2011) who found a positive association of organizational climate and commitment. The results also negate findings by Gallagher (2008) who said there was actually no significant relationship between organizational environment and psychological contract. In a nutshell, it is thus proved and confirmed that negative association between organizational climate and psychological contract exist in public service commissions and agencies in Uganda; hence adding another level of inconsistency in the outcomes of organizational climate. Results also found a significant and strong positive relationship between social exchanges and psychological contract. This signifies that an improvement social exchange boosts their association with psychological contract.

Overall, the research results indicate that the organizational climate and social exchanges significantly impact on the psychological contract. Accordingly based on results from the mediated model in Figure 1 and Table V, organizational climate accounts for -0.197 percent of the variance in psychological contract; social exchanges also account for 61.6 percent of the variance in psychological contract. In effect organizational climate and social exchanges are true predictors of psychological contract among public servants in Uganda's commissions and agencies. These findings corroborate well with previous studies conducted by Sturges *et al.* (2005) on the

association between organizational climate and organizational commitment. However, the fact that the findings show organizational climate to negatively predict psychological contract imply that the current organizational climate in the public service actually lowers the level of psychological contract between employers and employees; meaning that the more the public service puts into action the policies that determine the climate in the organization, the more the psychological contract is breached. This implies that such policies are not appropriate to drive employee-employer expectations of each other. However for social exchanges, the more the employees and employers exhibit elements of feeling for each other's concerns, the more they trust and reciprocate that trust, the more the psychological contract is maintained.

Since the multiplicative term in the SEM was significant, it implied support for *H3* which states that there is an interaction effect of organizational climate and social exchanges on psychological contract. These results indicate that organizational climate and social exchanges pose a magnitude effect on psychological contract hence the assumption of non-additivity is met (Jose, 2008; Bennet, 2000; Aiken and West, 1991; Friedrich, 1982). It signifies that the two must co-exist to influence psychological contract in Ugandan public service. What this means is that psychological contract increases as organizational climate and social exchange levels are increased, implying that a multiplicative effect of organizational climate and social exchanges is significant in Ugandan commissions and agencies. This depicts that combining the two elements will enhance or boost further the psychological contract and register higher psychological contract fulfillment than what one of the variables would have single-handedly registered. The findings of this study have therefore proved that interplay of organizational climate and social exchanges is material in influencing psychological contract of employees and employers of the public service's commissions and agencies in Uganda.

### *Conclusion*

Conclusively, the significant multiplicative effects of organizational climate and social exchanges on psychological contract confirm a conditional relationship; thereby satisfying *H3*. Besides, the interaction term is non-additive and its inclusion in the model gave rise to monotonic interactions (Bennet, 2000; Friedrich, 1982; Aiken and West, 1991). Since the interaction term between organizational climate and social exchanges is multiplicative; there is more to consider than simply the main effects of each of the independent variables. Since some of the study results contradict empirical findings in the existing literature, we maintain that the application of these study findings be used with maximum caution in other sectors.

### *Theoretical implications*

The study has addressed empirical issues or matters that have been all long not attended to by the literature more especially in the public service. Also, the study has attempted to disprove or confirm whether the theoretical underpinnings of the psychological contract are empirically supported in the public service. Consequently, the study has contributed to enduring social exchanges debate in the service sector. Despite several scholars' differing views on what constitute organizational climate and social exchanges, this study brought to light the true composition of organizational climate and social exchanges in Ugandan public service sector. In addition, the study has thrown more light on the multiplicative effect of organizational climate and social exchanges on psychological contract in the public service. These findings on multiplicative effect of organizational climate and social

exchanges on psychological contract in the public service have thus shown the substance of different predictors that blend to explain psychological contract; hereby enabling this study to address the confusion or contradictions that exist in extant literature.

*Managerial implications*

First, the study has introduced a clear understanding of the effect of organizational climate and social exchanges on psychological contract in the public service. This promotes management efforts in commissions and agencies to improve psychological contract which can be facilitated through the appropriate management of organizational climate and social exchanges. Thus, management can intensify initiatives to encourage greater understanding and acceptance of organizational climate and social exchange mix that boosts psychological contract in the public service in Uganda. The managers of commissions and agencies need to appreciate that the appreciation of organizational climate and social exchange in the public service is inevitable, given the competitive and technological forces that are sweeping the modern world. More importantly, current and future managers must know that public organizations are changing so rapidly that everything is dependent on their policies on organizational climate and the strength of social exchanges. It is therefore high time that public service commissions and agencies changed their management styles and traditional management models that do not capture appreciation of organizational climate and social exchanges as a major component.

In order to boost the fulfillment of employee-employer expectations and obligations of each other in the public service commissions and agencies in Uganda, management should endeavor to find and implement a viable organizational climate and social exchanges mix that increases psychological contract. Public service's emphasis on appropriate policies for organizational climate and social exchanges would enhance increased fulfillment of employee-employer obligations of each other. Given the fact that the interactive term involving organizational climate and social exchanges was found to be significant and hence non-additive, emphasis should be put in cultivating policies that enhance appropriate organizational climate and social exchanges because they make viable combinations that predict psychological contract. The managerial implications involve explaining how social exchanges can be used in the best manner to amplify organizational climate and psychological contract. As it is evident that organizational climate is an antecedent for psychological contract fulfillment, management in the public service should explore ways and means to create a conducive organizational climate for their employees. For instance, the public service's commissions and agencies management may introduce some programs that involve employees to take part in decisions that affect their work-life balance. Also from managerial perspective, it is also important to work on the determinants of social exchanges as it moderates the relationship between organizational climate and psychological contract.

These findings also hold far-reaching implications for HR Managers. The people in this profession should seize the opportunity to assist with the appraisal tools that make organizations tick. Rather than the conventional and supposedly objective approach that has characterized performance appraisals to date, evaluating of employees performance requires immediate and precise measures that include organizational input in terms of climate and social exchanges.

*Limitations of the study and suggestions for future research*

Several aspects limit the scope of this paper. First, findings of this study are based only on a sample of one country. This may not be fully representative for all developing

countries' public service sectors and necessitates replications in other developing countries with different socio-economic backgrounds to generalize the research findings. It is apparent that the organizational climate in different countries differs. Other limitations that have implications and require initiatives for future research include: the varied results of the study due to the methodology used for measuring organizational climate and social exchanges. Although the constructs have been defined as precisely as possible by drawing relevant literature and validated by practitioners, the measurements used may not perfectly represent all the dimensions of each variable. Future studies could use the same basic hypotheses and SEM construction, but implement the study in terms of a longitudinal rather than a cross-sectional design. Also, since organizational climate was negatively and significantly associated with psychological contract, further research could be carried out in a relatively different field probably in the private sector to prove or disprove this finding. Despite possible limitations of using single-period data, the results of the present study provide valuable insights into the effect of organizational climate and social exchanges on psychological contract.

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#### **Further reading**

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