

Procedural Justice, Trust, and Decision-Making Style: A Study of Collective Enterprises in the Context of China's Reform

Dr. Yuan Wang

School of Management
University of Technology, Sydney
City campus, Haymarket
PO Box 123 Broadway
NSW 2007 Australia
Email: karen.yuan.wang@uts.edu.au
Telephone: 61-2-95143577
Fax: 61-2-9553 6218

Dr. Neil Barnwell

School of Management
University of Technology, Sydney
City campus, Haymarket
PO Box 123 Broadway
NSW 2007 Australia
Email: neil.barnwell@uts.edu.au
Telephone: 61-2-95143612
Fax: 61-2-9514 3602

Dr, John Crawford

School of Management
University of Technology, Sydney
City campus, Haymarket
PO Box 123 Broadway
NSW 2007 Australia
Email: john.Crawford@uts.edu.au
Telephone: 61-2-95143621
Fax: 61-2-9514 3602

STREAM F

Procedural Justice, Trust, and Decision-Making Style: A Study of Collective Enterprises in the Context of China's Reform

Abstract

Collective Owned Enterprises (COEs) are a common form of enterprise in China which employ a substantial part of the rural and non urban workforce. They are primarily owned by collectives or local governments. Most research on management of enterprises in China has concentrated on urban industrial establishments, particularly those which are joint ventures with foreign firms. This study concentrates on trust, procedural justice and employee participation in COEs. A validated questionnaire measuring these three variables was administered to 83 managers employed by COEs in Hubei province in China. The findings of the study suggest that trust in dependability and procedural justice have a positive effect on participation in decision making within the Chinese collective enterprises. Commitment to procedural justice was also found to be positively related to participation in decision making. However trust in good faith was found to be unrelated to participation in decision making.

INTRODUCTION

Since the introduction of China's open door policy in the 1980s, collective owned enterprises (COEs) have continued to play an important role in China's economy (Sun, 2000). The COEs present a mixed picture of ownership by local government and collectives, however they are all provincially based and largely rural in origin. They have contributed significantly to China's GDP and in 2001 employed 127 million rural workers who would have otherwise been underemployed or only engaged in seasonal agricultural activity. (Anonymous, 2001). It is also a rapidly growing sector of the Chinese economy. Employees of COEs are mainly from rural areas and are either peasants or redundant agricultural labourers. They are poorly educated and juggle the dual role of being a peasant and an industrial worker in the cooperative. Because of the significant role which COEs play in the Chinese economy, there is been a growing interest in extending our understanding of how they are managed and how management characteristics affect organizational performance. Given the unusual nature of their ownership, important questions for researchers are how do managers of COEs manage the challenge of fast growth rates where workers generally have a poor education; and what is the extent of trust and procedural justice they have in their employees and what role do they give them in the decision making process?

This study investigates the extent to which managerial beliefs influence decision-making style in COEs. It uses the dimensions of trust in employees, dependability, predictability and procedural justice to test the relationships. Understanding the relationship between the decision making style and managerial beliefs of trust and procedural justice within COEs advances our knowledge of how to operate effectively in these organizations in the context of China's ongoing economic reform.

THEORETICAL CONCEPTS AND HYPOTHESES

Researchers have proposed that managers' trust in employees and the existence of procedural justice are a basis for organizational effectiveness and are likely to induce managers to encourage the participation of employees in the decision-making process. (Whitener et al., 1998; Moorman et al., 1998).

Decision-Making Style. Decision-making processes involve two basic issues: first, who is involved in the decision-making process? The second issue involves the degree to which subordinates are able to influence decisions and how much their interests are reflected in the outcome of decisions (Heller et al, 1998). Whenever issues of participation are involved, managers play a key role in determining the actual degree of involvement in the decision-making process, deciding the extent to which the views of subordinates are reflected in the outcomes. In this study, decision-making style is defined as the degree to which managers are willing to allow participation by subordinates in decision-making processes.

Prior studies suggest that a manager's beliefs and values are linked to their leadership styles and effectiveness (Thomasa et al., 2001; Berson, 2001). Furthermore, managers do not articulate their managerial visions in a vacuum. They develop them based on the contextual and personal settings (Thomasa et al., 2001; Zhu & Dowling, 1998).

Trust. Trust is an exchange relationship in which risk or vulnerability is involved (Rousseau et al., 1998) and has been defined as a willingness to rely on another party to take action in circumstances where such action makes one vulnerable to the other party (Shaw, 1997; Doney et al., 1998; Lewicki, et. al., 1998). Building trust is a

sophisticated psychological process, which involves the person who is vesting trust to engage in multiple processes of calculation, prediction, and perception about the trustee's intentions and capacity (Butler and Centrell, 1984; Doney et al., 1998). Rempel, Holmes and Zanna (1985) argue that trust in the targeted person's dependability, predictability, and good faith reflects key aspects in the trust-building process. Based on previous experience of the target's stability and consistency of behavioral patterns, investors in trust develop *trust on the basis of predictability*. Based on the quality and attributions of the target's current behavior, investors in trust increase their *trust in the target's dependability*. Combining dependability, predictability, and feelings of security about the target fosters *trust on the basis of an expectation of good faith*, a trust that goes beyond the available evidence and which is rooted in expectations of confidence. In the present study, in the context of a vertical interaction of management processes, trust includes the belief by managers in the importance of depending on employees and having positive, confident expectations of competent behavior and honesty in achieving common goals outcome, even in the face of uncertain circumstances. When management power is shared, subordinates have the opportunity to act in a self interested manner by influencing decisions to favour themselves (Whiltener et al., 1998). Given this possibility, managers need to assess whether subordinates are sufficiently trustworthy to participate positively and consistently in the process of empowerment without abusing it.

Procedural Justice. Justice theory involves three dimensions including distributive, procedural and interactive justice (Moorman et al., 1998). The present study focuses on procedural justice, as it is most relevant to the decision-making processes of management. Procedural justice, as initially formulated, concerned individual perceptions about the fairness of the formal procedures governing decisions (Thibaut and Walker, 1975). A key determinant of procedural justice is the extent to which subordinates are allowed to provide input and voice into the decision process (Thibaut and Walker, 1975; Brockner et al., 2001). In the present study, procedural justice is defined in terms of management's belief that they should give employees a chance to voice their concern in a formal decision-making process the outcomes of which may influence their interests. Tyler and Griffin (1991) find that decision makers place significantly greater weight on procedural justice when attempting to maximize positive interpersonal relations among group members. Managers may consciously

use the fairness of the process as a means to motivate employees to commit to their work, thus encouraging employee participation in the decision-making process.

Trust, Procedural Justice and Decision-Making Process in COEs. The involvement of local governments in COEs in China has been crucial for their early stage development (Jiang and Hall, 1996). As the *de facto* owner of collective enterprises, local governments helped COEs gain access to capital, land, materials, and licenses. In return, collective enterprises had to accept guidance from local governments in the critical issues of employment, control and financial disbursements. This interference quite often conflicted with the efficiency of the COEs (Sun, 2000). However, since the mid-1990s, COEs have been restructured and a number have been sold to private entrepreneurs. (Sun, 2002). This conforms with the proposals by Chen and Rozelle (1999) who argue that initially, leadership drawn from local government has a comparative advantage in operating a firm when the external management inputs were most critical. But as markets develop, this advantage disappears and a greater stress needs to be placed upon efficiency and profitability.

Historically senior management in COEs are mostly from the local community and have a relatively poor educational background. The competitive marketplace renders peasant entrepreneurs and managements' existing knowledge, practices and technical skills increasingly inadequate. Chow and Fu (2000) propose that managers and workers in COEs are more likely to hold traditional values because of the slow pace of reforms in rural areas. High power distance, which has been found to be negatively related to the development of trust (Williams et al., 1966; Hofstede, 1984; Shane, 1993) may still influences manager's beliefs and behaviours in COEs.

The wider social and economic settings in which the COEs operate produce many constraints upon managers. COEs have limited resources and most cannot provide employees with basic welfare. Many also only offer low salaries. Under these conditions, COEs find it difficult to attract and maintain quality employees with adequate skills. Most employees in COEs generally have poor education (Liu et al., 1998) and juggle a dual role as workers and peasants (Sun, 2002). In addition, there is a high turnover of technicians, marketing and management personnel, as they are attracted to other jobs offering higher salaries and better conditions (Ding et al.,

2001). The managers' lack of training and experience combined with high turnover of key employees, is likely to lead to limited trust in employee dependability, predictability and good faith. Consequently, managers would provide employees with limited degree of participation in key decision making processes.

Procedural justice may be influenced by the social setting in which COEs operate. COEs must consider their relationships with the community and local government when making important decisions (Jiang and Hall, 1996). These considerations may impose upon management a commitment to procedural justice, which is likely to facilitate acceptance of participation in decision-making processes. But counter to this argument is that COEs have been found to have a simple, centralized organizational structure (Tan, 1999; Perotti et al, 1999). Managers who consider interpersonal relations important are likely to link procedural justice with sharing information in the decision making process (Tyler and Griffin, 1991; Magner, and Johnson, 2000). It is proposed in this study that managers of CEOs are likely to invite participation in the decision-making processes because of the relationship concerns.

In order to test the interrelationship between trust, procedural justice and the decision-making behavior of managers within the context of Chinese COEs, this study hypothesizes that:

H1: In Chinese collectively owned enterprises, the lower managerial trust in employee predictability, dependability and faith is, the less employee participation managers will permit in their decision-making processes.

H2: There is a positive relationship between procedural justice and participation in the decision-making process in Chinese collectively owned enterprises.

METHODOLOGY

Data gathering and sampling A questionnaire survey was conducted between September and December 2000. The sample consisted of 83 managers, randomly selected from medium- sized COEs (between 200 and 1000 employees), in a hierarchical range stretching from top and middle management to first-line management. All the managers were from cities of Hebei province, in Northern China. Sixty nine percent of the managers in the sample had less than five years experience in management, while 60.7 percent only reached the educational levels of high or junior high school (Table 1).

Survey design and measures The main survey instrument was developed through a review of relevant literature. Standard validation measurements were adopted. Trust was measured using three scales modified from Rempel, Holmes and Zanna's (1985) trust survey questionnaire. Trust Scale 1—trust in good faith—measured the extent to which a manager believed that subordinates would be trustworthy in the future. Trust Scale 2—trust in dependability—measured the extent to which a manager believed that subordinates were dependable, reliable and able to act competently and responsibly, rather than intending to take advantage of a situation. Trust Scale 3—trust in predictability—measured a manager's belief that subordinates were consistent, stable and predictable in terms of past patterns of behavior.

Procedural justice was measured using a scale from Moorman's (1991) justice measurement. It tested the extent to which a manager believed that fair procedures, reflecting subordinates' interests in a formal decision-making process, should be used. Decision-making style was measured by a newly developed scale composed of two items for the purpose of the present study. This scale tested the extent to which a manager usually invites employee participation in the decision process. For these items, subjects expressed their level of agreement with a given statement via a seven-point, Likert-type scale—strongly agree to strongly disagree—with higher means representing a higher level of trust (after all items with opposite order were reversed). Because the survey was of managers' practices and values, the perspective of the scales was shifted from a peer–interpersonal relationship (e.g. trust) or from subordinate perspectives (e.g. procedural justice), to a manager's perspective.

The questionnaire was translated into Mandarin from English as the original items were all derived from the English language literature. The versions in Mandarin and English were made equivalent in meaning, refining the questions through backwards-forwards translation as the process of validation.

Scale reliability The main analysis of this study involves five dimensions: *trust in faith*, *trust in dependability*, *trust in predictability*, *procedural justice*, and *decision-making style*. Their reliability coefficients are all at an acceptable level as shown in Table 1, with a range between $\alpha = 0.70$ and $\alpha = 0.93$. Regression analysis was used to investigate the specific effect of decision-making style associated with trust and procedural justice. Control variables were age, education, length of management experience, and position level.

RESULTS

The means, standard deviations and Pearson correlations for demographic variables, trust variables (good faith, dependability, predictability), procedural justice and decision making are presented in Table 1. The results of the means of trust variables, with a seven-degree scale, show that managers in COEs have a relatively high level of trust in employee predictability, dependability, and good faith, which was not expected. The results of correlations indicate that there are correlations between the values of decision making and trust in dependability ($r = 0.29$, $p < .01$) and trust in good faith, ($r = 0.30$, $p < .01$). There is also a positive relationship between procedural justice and the decision-making process ($r = 0.43$; $p < .001$).

Table 1. Means, Standard Deviations, and Pearson Correlations ^a for Variables

Variable	M	SD	R ^f	1	2	3	4	5	6	7	8	9	10
1. Gender	1.35	.48		---									
2. Age ^b	1.67	.98		-.26**	---								
3. Education ^c	2.33	.63		-.12	.02	---							
4. Years in management ^d	2.14	1.07		-.07	.68***	.09	---						
5. Managerial position ^e	3.07	.90		.06	-.52***	-	-	---					
6. Trust - faith	4.81	1.23	.71	-.05	.16	.10	.19*	-.12	---				
7. Trust - dependability	4.83	1.08	.70	-.11	.26**	.10	.25**	-.17	.56***	---			
8. Trust - predictability	4.38	1.44	.79	.17	-.03	-.28**	.02	.28**	.04	-.08	---		
9. Procedural justice	5.47	1.12	.93	.17	-.19	.24*	-.05	.12	.22**	.10	.09	---	
10. Decision making	4.72	1.70	.75	.02	-.03	.11	-.06	.15	.30**	.29**	.13	.43***	---

^a * p < .05; ** p < .01; p < .001; (2-tailed).

^b Age was coded as: 1= 20-29; 2=30-39; 3= 40-49; 4=50 or over

^c Education level was coded as: 1 = primary school; 2= secondary School; 3 = bachelor' degree; 4 = postgraduate degree.

^d Management Position was coded as: 1 = top management; 2 = senior management; 3 = middle management; and 4 = first line management.

^e Years in management was coded as: 1 = less than 2 years; 2 = 2 – 5 years; 3 = 6- 10 years; 4 = 11-20 years; and 5 = over 20 years.

^f Reliability.

The results of regression analysis with decision-making as the dependent variable for Chinese managers in COEs are presented in Table 2. The results indicate that both trust in dependability and procedural justice have significant effects on the decision-making style of managers associated with the degree of subordinate participation when controlling for the demographic variables of age, education, position level, and years in management. Trust in dependability by COEs has a modest effect on managers' decision-making styles. The first hypothesis is therefore partially supported. As procedural justice by COEs has a strong effect on decision-making style, the second hypothesis is supported.

Table 2. Hierarchical Regression Analysis Explaining Decision Making Style for Collectively-owned Enterprises in China ^a

Variable	Decision Making		
	Model 1	Model 2	Model 3
Gender	.01	.07	.00
Age	-.03	.18	.16
Education		.25*	.11
Years in Mgt.		-.04	-.15
Mgt. position		.32*	.18
Trust in dependability			.21*
Trust in faith			.12
Trust in predictability			.10
Procedural justice			.35**
R ²	.03	.27	.55
Adjust R ²	-.03	.01	.21
F	1.72	1.69	1.51**
Observation number	83		

^a Standardized coefficients are reported.

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

DISCUSSION

Implications and Limitations The purpose of this study was to identify the relationship between procedural justice, trust, and decision-making styles. The findings of the study contribute to both the theoretical literature and to managerial practice, yielding increased understanding of how trust and procedural justice influence the decision-making processes of COEs in China's transitional economy.

Management's belief about *procedural justice* and *trust in dependability* are found to affect the decision-making style in COEs. These findings support previous studies that argue that trust influences control at both institutional (Shapiro, 1990) and individual level of organization (Pennings & Woiceshyn, 1987). The findings of the study show that although COE managers develop a reasonably high level of trust in employee dependability, predictability, and good faith, they prefer to invite employees who are trustworthy and dependable to participate in the decision-making process. This indicates that COE managers give more emphasis to the quality rather than the quantity of participation in the decision-making process. The practice of nepotism and favoritism in COEs may contribute to employees' loyalty to managers and this in turn, may lead to COE managers' trust in the predictability and good faith of this group. But managers appear to be unwilling to have those employees who are

not competent participate in the decision-making process. One explanation may be that top management in COEs are increasingly hiring managerial and technical staff from the wider labor market to fill important positions (Ding et al., 2001). Such personnel are usually more highly trained and experienced in managerial, financial, and technical fields than local employees (Liu et al., 1998; Ding et al., 2001). Consequently COE managers may be more likely to involve this group in decision making in order to compensate for their own inadequate knowledge of business operations. A further explanation may be that COE managers may consider that interpersonal relationships with employees who are mainly from local communities need to be nurtured and believe that employees' voices should morally and symbolically be heard in the decision-making process. As a result, there is a positive regression between the degree of employee participation in decision-making and procedural justice.

This study sheds light on some important managerial issues of collective ownership in China, but it has a number of limitations. First, the present study did not match responses in terms of industries, as the survey data were collected randomly by ownership. Consequently, this study may contain a common method bias influencing the relationship between decision-making and views of trust and procedural justice. The different business natures of divergent industries might lead to variation within enterprises on views of trust in employee capacity and loyalty, the necessity for procedural justice, and decision-making styles, even though enterprises are of the same ownership type.

Another limitation of this study is that the sample is relatively small and only represents managers from one province of China. The generalization of the findings of this study must be taken cautiously. Future researchers may wish to test the relationship between decision making and these managerial views in a large scale of sample cross China.

Directions for Further Research and Conclusion This research contributes to our knowledge of managerial practices in an important and little researched sector of the Chinese economy. Most research in China has concentrated on joint ventures and foreign owned enterprises. Extending our knowledge as to how trust and procedural

justice are related to governance in different forms of enterprise in China helps our understanding of management in the Chinese context. In addition to enterprise type, further investigation could be made into regional differences in China as provinces, regions, and cities vary greatly in subcultures, industrialization, degree of economic development and enterprise reform. Managerial practices and views are unlikely to be homogeneous under these circumstances. Another concern arises from the measurements used in the study. The three scales used to measure trust and decision-making style in the study should be considered as exploratory. Future studies using the trust and decision making process scales may benefit from additional items which increases the reliability of these scales.

In conclusion, this study contributes to current knowledge of China's collective enterprises during a period of ongoing enterprise reform. Specifically, it provides an understanding of the effects of managerial views of trust and procedural justice on the decision making process

References

- Berson, Y. (2001) The Relationship between Vision Strength, Leadership Style, and Context. *Leadership Quarterly*, 12, (1): 53-74.
- Doney, P. M., Cannon J. P., and Mullen, M. R. (1998) Understanding the Influence of National Culture on the Development of Trust. *Academy of Management Review*, 23, (3): 601-620.
- Jiang, Shanhe and Hall, Richard H., 1996, Local Corporatism and Rural Enterprises in China's Reform, *Organization Studies*, Vol. 17, No. 6: 926-952
- Lewicki, R. J., McAllister, J. D. and Bies, R. J. (1998) Trust and Distrust: New Relationships and Realities. *Academy of Management Review*, 23 (3): 438-458.
- Moorman, R. H., Blakely, N. and Brian, P. (1998) Does Perceived Organizational Support Mediate the Relationship between Procedural Justice and Organizational Citizenship Behavior? *Academy of Management Journal*, 41 (3): 351-357.
- Pennings, J. M., and Woiceshyn, J. 1987. A Typology of Organizational Control and its Metaphors. In S.B. Bacharach & S. M. (eds), *Research in the Sociology of Organizations*, 5 75-104. Greenwich, CT: JAI Press
- Perotti, E. C., Sun, L. and Zou, L., (1999) State-Owned Versus Township and Village Enterprises in China. *Comparative Economic Studies*, 41, (2): 151-179.
- Rempel, J. K., Holmes, J. G. and Zanna, M. P. (1985) Trust in Close Relationships. *Journal of Personality and Social Psychology*, 49, (1): 95-112.
- Shapiro, S.P. (1987). The social control of impersonal trust. *American Journal of Sociology*, 93: 623-658.

- Sun, L. (2000) Anticipatory Ownership Reform Driven by Competition: China's Township- Village and Private Enterprises in the 1990s. *Comparative Economic Studies*, 42, (3): 49-47.
- Tan, J. J. (1999) Environment-Strategy Configurations among Ownership Types. In L. Kelley and Y. Luo (eds), *China 2000: Emerging Business Issues:49-72*. London: Sage Publications.
- Thibaut, T. R. and Walker, L. (1975) *Procedural Justice: A Psychological Analysis*. Hillsdale, NJ: Erlbaum.
- Thomas, J. L., Dickson, M. W. and Bliese, P. D. (2001) Values Predicting Leader Performance in the US Army Reserve Officer Training Corps Assessment Center: Evidence for a Personality-Mediated Model. *Leadership Quarterly*, 12, (2): 181-197.
- Whitener, E. M., S. E. Brodt and W. J. M. Korsgaard (1998), Managers as Initiators of Trust: An Exchange Relationship Framework for Understanding Managerial Trustworthy Behavior. *Academy of Management*, 23, 3, pp 513-530.
- Xiang, R. (2001), Six Keys of Chinese Enterprises' Development. *Journal of Business World*, (Supplementary, in Chinese), pp 14-17.
- Zhu, C., & Dowling, P. (1998). Employment Systems And Practices In China's Industrial Sector During And After Mao's Regime, *Working Paper 81/98*, Department of Management, Monash University.

Surfing the Waves

ANZAM CONFERENCE 2003
Management Challenges • Management Solutions



Hosted by
2 - 5 December, 2003
Esplanade Hotel
Fremantle, Western Australia

Proceedings of the
17th ANZAM Conference

Refereed Papers presented at the Conference
Editor: Professor Alan Brown

ISBN: 1 86308 108 9