

**The Development of Trust in Employees: A Comparative Study of  
Managers in Collective Enterprises, Joint Ventures and Private Enterprises  
in China**

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## **Abstract**

*There is an increasing necessity for foreign investors to comprehend Chinese staff at management level in specific ownership contexts. Based on investigation of managers drawn from Beijing and Hebei province, the findings of this research contribute evidence to support the proposition that management trust in employees varies in divergent ownership models, including collectively owned, privately owned and joint venture forms in China. The cultural values of power distance and collectivism are also found to have an effect on the trust development of management in these forms of enterprises.*

# **The Development of Trust in Employees: A Comparative Study of Managers in Collective Enterprises, Joint Ventures and Private Enterprises in China**

## **Introduction**

The Chinese economy was one of the world's fastest growing economies during the 1990s. By the end of 2000, China had attracted a total of US\$474.3 billion in capital investment from foreign direct investment since opening the door to the world in the late 1970s (China State Statistics Bureau, 2001). China's entrance into the World Trade Organization will have a leverage effect on this phenomenon. More and more multinational corporations (MNCs) seek strategic alliance among Chinese enterprises. Learning the details and rules of local business games remains necessary in developing a foundation for their management success in China. A challenge for them is to understand changing and complicated operating systems under China's economy reforms. . Currently, state-owned, collectively owned, privately owned and joint venture forms coexist in China. The different forms of these enterprises provide a key source of variance in many organizational aspects of business, such as the relationship with government, management mechanism and resources including human resources (Luo & Chen, 1997; Tan, 1999).

The emergence of multiple forms of ownership in China poses some central organizational research questions regarding management. Whether managers of various ownership enterprises have developed different levels of trust in their employees, which may substantially influence their managerial practice, with facing divergent operation conditions? Specifically, do Chinese managers in joint ventures, who are originally from state-owned enterprises, trust in their employees in a context where managers need to adapt new hybrid Chinese/Western management practices? Do Chinese managers in privately owned enterprises place more trust in employees and invite more employee participation than Chinese managers in collectively owned enterprises?

Managers' values and beliefs have a complex impact on the practice of management and leadership (Szabo et al., 2001). To understand and predict managers' behaviour towards work and subordinates, it is important to identify managerial beliefs about trust in relation to the organizational complex. Prior work on China's management has focused on national values in various groups, such as managers, business students and entrepreneurs (Hofstede, 1993; Ralston et al., 1993; Schwartz & Sagiv, 1995; Smith et al., 1996; Holt, 1997; Ralston et al., 1999), but more relevant aspects of beliefs and behaviours at the management level have been under-explored. There is an increasing necessity for foreign investors to understand the beliefs and behaviours of Chinese staff at the management level in specific ownership contexts, as localization of foreign-invested companies has become a crucial issue. Previous studies of China's enterprise ownership focused on 'organizational hardware' such as human resource policies, strategy orientations, performance and alliances between international business partners (Defilippo, 1997; Luo & Chen, 1997; Zhu & Dowling, 2000; White & Liu, 2001). However, much less attention has been given to organizational 'software' such as operation-related managerial beliefs and attitudes. Those psychological factors, which are crucial for any business to be successful, may also vary in different types of ownership in China, once substantial operations have been established.

Previous research proposes that cultural values have an influence on the development of trust. Researchers suggest that low degrees of interpersonal trust correlate with a high power distance (Shane, 1993) and that trust is lower in countries with dominant hierarchical social values (Porta et al., 1997). Chen and his colleagues (1998) argue that cognitive-based trust is enhanced by individualism, while development of affect-based trust is promoted by collectivism. This study, thus, not only conjectures that different forms of ownership in China, because of their different human resources, will be associated with variations on the issues of trust, but also assumes that national values of power distance and individualism-collectivism will affect these issues.

In this empirical investigation, the focus is first on the extent to which managerial beliefs vary in divergent ownership models, including collectively owned, privately owned and joint venture forms, using the dimensions of trust; and second, on the extent to which cultural values of power distance and collectivism affect management trust in the context of these ownership forms.

Theoretically and practically, patterns of ownership are assumed to shape managers' perceptions, beliefs, attitudes and related behaviours. It is argued that an understanding of the relationship between ownership types and domain dimensions may help to reveal the underlying logic of an organization's activities (Mascarenhas, 1989). Ownership factors have been identified as a determinant for trust development (Chan 1997; Whitener et al., 1998). Ownership is found to lead directly to particular autonomy on human resource practices and subordination policies in China (Zhu & Dowling, 1998; Jefferson, 1999). As a result, demographic characteristics and social values of employees in different forms of enterprises may vary and are likely to lead to the degree of management trusts in employees. Understanding differences in trust in employees among Chinese collectively owned, privately owned and joint venture enterprises advances our knowledge of how to select business partners effectively and how to operate effectively in the context of China's ongoing reform.

### **Theoretical Concepts and Hypotheses**

Whitener and his colleagues (1998) argue that the antecedent of a positive leader-member relationships is trustworthy behaviour by managers. In other words, managerial behaviour on the dimensions of trust initiates the mutual trust between leader and followers, which leads to followers' organizational commitment (Masterson et al., 2000). In the trust-building process, it is the trust that managers vest in employees that makes them trustworthy (Ray, 1994; Shaw, 1997).

### **Trust**

Trust has been studied from several disciplinary perspectives, such as economics, psychology, sociology, social psychology and political science, with different methods (Bhattacharya & Devinney, 1998). Inevitably, scholars of diverse disciplines draw different definitions and conclusions on the fundamental nature of trust. The present research looks at management trust more from perspectives of psychology and social psychology. Building trust is a sophisticated psychological process, which involves the person who is vesting trust to engage in multiple processes of calculation, predication and perception about the trustee's intentions and capacity (Butler & Centrell, 1984; Doney et al., 1998). Rempel and his colleagues (1985)

argue that trust in the targeted person's dependability, predictability and good faith reflects key aspects in the trust-building process.

Based on the quality and attributions of the target's current behaviour, investors in trust increase their *trust in the target's dependability*. Trust is an exchange relationship in which risk or vulnerability is involved (Rousseau et al., 1998). Both Shapiro and colleagues (1992) and Adler (2001) suggest that trust in business relationships develops on a calculative basis, as parties try to determine the nature of their interdependence, what benefit they will obtain from the relationship and give to it, and what risks and vulnerabilities they are likely to be exposed to in the process. Trust is only developed when one who is vesting that trust perceives that a target's intentions in the exchange are benevolent and dependable (Lewicki & Bunker, 1996). The competence and responsibility of the person in whom trust is being vested, therefore, are central for the other person to invest in trust building (Barber, 1983; Shapiro, 1987; McAllister, 1995; Chen et al., 1998).

It is also argued that based on previous experience of the target's stability and consistency of behavioural patterns, investors in trust develop *trust on the basis of predictability*. The investment of trust is positively developed further when trustees consistently interact benevolently in prior encounters (Stack, 1978; Adler, 2001). Trust in predictability emerges when the person vesting trust gains confidence in his or her ability to predict the target's future behaviour with accuracy (Rempel et al., 1985; Doney et al., 1998).

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 (Rempel et al., 1985). Trust requires one party to believe that it is important to depend on the other party and to have positive, confident expectations that they will behave competently and honestly in achieving common goals (Das & Teng, 1998).

Likewise, management trust in subordinates' dependability, predictability and faith is related to the degree to which a manager believes that subordinates are capable of carrying out and willing to carry out their jobs independently, and are also capable of sharing responsibility in work (Graen & Uhl-Bien, 1995; Wang & Clegg, 2002). Research on leader-member exchange suggests that high-quality exchange relationships involve showing mutual respect and sharing decision control (Dienesch & Liden, 1986; Liden & Maslyn, 1993). To obtain

true employee involvement, managers must send a clear message to employees that they are trusted and their participation is valued (Ray, 1994; Kelly & Weber, 1995; Lindsay, 1996). Managers, from a social exchange perspective, exhibit trust in subordinates to provide social rewards in order to gain their support, compliance and loyalty (Marcus & House, 1973; Graen & Scandura, 1987). In this study, in the context of a vertical interaction of management processes, trust is defined as the belief of managers in the importance of depending on employees and having positive, confident expectations and faith of competent behaviour and honesty in achieving common goals, with a predictable outcome, even in the face of uncertain circumstances. Trust dependability, predictability and faith of employees is a key for this defined managerial belief.

### **Patterns of Ownership and Trust in China**

China is transforming from a centrally planned economy into one that is more market oriented, with five types of economic ownership characterizing the present conjuncture: state, collective and private ownership coexist and compete with Sino-foreign joint ventures and fully foreign-owned enterprises. These heterogeneous ownership types vary significantly in their degree of government administrative intervention as well as in the human resources available to them. The impact of ownership types on selection practice and human resource management preferences has been identified and there are significant differences on selection criteria and hiring practice across joint ventures and privately and collectively owned enterprises in the context of China's enterprise reform (Zhu & Dowling, 1998). Consequently, those types of ownership enterprises may possess different demographic characteristics and qualities of employees, including managers. The management of these three different types of ownership enterprises is likely to develop dimensions of trust in dependability, predictability and good faith to different degrees.

Collectively owned enterprises (COEs) are established and supported by local governments rather than by the central government. Compared with the central government, local governments usually have limited resources to offer collectively owned enterprises. Typically, COEs find it difficult to attract and maintain sufficient quality employees for their operation, especially in managerial positions. Graduates of university and colleges rarely choose or are officially appointed to join COEs, which are believed to have low profile status and limited welfare (Sun, 2000), enjoying, in most cases, the least rank among ownership enterprises.

Under the mandates of the local government, the employees of COEs are mainly composed of local residents of variable quality, who are desirous of other jobs in better workplaces. They cannot select employees against their own preferred criteria in terms of dependability, loyalty and quality. Employees' capacity, psychological maturity (e.g. honesty and responsibility), and behavioural consistency in COEs, therefore, are seen as weak by management. There would be unjustified risk from a management point of view in developing trust through power sharing with subordinates. COEs usually develop a simple, centralized organizational structure (Tan, 1999; Jiang & Hall, 1996), which may indicate management's deep concern about their employees' quality and the high business risks that they face. With tough business conditions and tight control by local government of their recruitment, managers in COEs can not select the employees autonomously and are less likely to trust in employee dependability, good faith and predictability than those in joint ventures and private enterprises.

Almost all privately owned enterprises (POEs) in China initiate their business in a highly competitive environment with neither central nor local government support. The tough business conditions imposed on these private enterprises force them to adopt a significantly different human resources system from their counterparts. With respect to human resource management, private companies in China are the only type of ownership that has thorough autonomy to recruit employees. Nepotism and favouritism in filling the management structure are used to avoid extremely high uncertainty. Although managers in private enterprises have been identified as higher risk takers compared with managers of SOEs and joint ventures (Holt, 1997), they have been seen to justify the need to reduce their risk. They believe that friends and relatives are trustworthy, even though their competence is sometimes questionable, and that, in an extremely uncertain and tough environment, one reduces business risk by hiring such people as managers (Lau et al., 1999). Managers believe they can predict such followers' behaviour patterns and maintain their good faith by virtue of knowing and trusting them for a long time. In a Chinese cultural context, prevailing social values of reciprocity and 'face' strengthen such perceptions and belief. Managers are likely to believe that people who are selected for tough conditions through particular criteria of '*guanxi*', should think that they have been given 'face' and trust, and hence should show their allegiance to management in return. POE management also uses competency criteria when selecting unfamiliar new employees who are not from their network. Consequently, managers in private enterprises are likely to have the strongest trust in employees' good faith and predictability, while amongst



the three types of ownership, they have only a reasonable level of trust in dependability compared with those in joint ventures.

International joint ventures in the Chinese context invariably comprise a domestic firm and a foreign partner. The ownership form of the domestic partner is usually that of a state-owned enterprise (Goodall and Warner, 1999), though this may vary across the other types. To ensure business success and attract more foreign direct investment, various levels of the Chinese government always selects the best state-owned enterprises of industries to be one partner in Sino-foreign joint ventures. These selected enterprises not only have better equipment but also possess relatively high quality employees for that particular industry. Joint ventures, with higher salaries in comparison with local companies (Leung et al., 1996) and knowledge-learning advantages, are strongly attractive for young qualified people to join. These enterprises thus have a better chance of selecting the best-qualified people. Therefore, managers in joint ventures are likely to have more grounds for trusting in employees' dependability than ones in other types of enterprise, which is likely to become of the highest degree of management trust. However, a special report indicates that the young qualified people employed are 'frequent fliers' who have a very high rate of turnover in joint ventures (Goodall and Willem, 1998). This is most likely to lower the extent of management trust in employee predictability and faith in joint ventures, compared with managers in the private and collective enterprises. The present study, thus, hypothesizes that

*H1a: Managers in joint ventures will have the highest trust in employees' dependability, followed, in descending order, by those in privately owned and collectively owned enterprises.*

*H1b: Managers in privately owned enterprises will have the highest trust in employee predictability, followed, in descending order, by those in joint ventures and those in collectively owned enterprises.*

*H1c: Managers in privately owned enterprises will have the highest trust in employees' faith, followed, in descending order, by those in joint ventures and managers in collectively owned enterprises.*

National cultural dimensions have been identified as a useful tool for understanding people's particular perceptions and behaviours. It has been proposed that the dimensions of individualism-collectivism and power distance through cognitive processes have an impact on trust-building processes (Shane, 1993; Mente, 1994; Porta et al., 1997; Chen et al., 1998;

Doney et al., 1998). Individualism–collectivism refers to the relationship between the individual and the collectivity that prevails in society: a self versus a group orientation. Chen and his colleagues (1998) argue that cognitive based trust, which is based on other's performance behaviour and accomplishment, similar to trust in dependability, is enhanced by individualism, while development of affect-based trust, which is formed in a social-emotional bond the goes beyond regular business professional relationship—goodwill / trust in good faith is promoted by collectivism. The cultural value of the power distance dimension addresses ideological orientation and behavioural adaptation to authority. People placing a high value on allegiance to authority are likely to show low levels of trust with lower status. It is found to relate negatively to trust in cross-cultural studies (Williams et al., 1966; Negandhi & Prasad, 1971; Shane, 1993). Mente (1994) argues that it is the presence of hierarchical values which leads to a climate of non-trust in Chinese organizations in the PRC.

Doney and his colleagues (1998) argue that context may play a role in determining the relationship between cultural and managerial preferences, and that situational factors may influence the relevance of particular cultural dimensions. Therefore, it would be helpful to gain a deeper understanding of trust by looking at the effect of individualism–collectivism and power distance in relation to the different forms of ownership and trust. Although Chinese employees, in general, are believed to devalue vertical job involvement because of high power distance (Mente, 1994; Pelled & Xin, 1997), current one-person control structures in POEs and implementation of contemporary management in joint ventures are likely to be derived from the fact that managers in POEs develop higher degrees of this dimension than do those in joint ventures. Managers' individualism in POEs has been found to be significantly higher than that of managers in SOEs and joint ventures (Holt, 1997). Additionally, demographic characteristics are found to be related to cultural values in China's context. Studies by Birnbaum -More and colleagues (1995) and by Ralston and associates (1999) argue that the age of managers is related to the value of individualism–collectivism, though their conclusions on the direction of such a relationship are contradictory. All these arguments of previous research indicate that cultural values may have an effect on trust through the demographic characteristics. This study focuses on testing the effect of collectivism and power distance on trust related to these characteristics. It, thus, is hypothesized that

*H2a: Cultural values of power distance are negatively related to the managers' trust (in predictability, dependability and good faith) through demographic characteristics of China's private and collective enterprises and joint ventures.*

*H2b: Cultural values of collectivism are positively related to the managers' trust (in predictability, dependability and good faith) through demographic characteristics of China's private and collective enterprises and joint ventures .*

## **Methods**

### **Sample and Procedure**

The sample for this study consisted of 310 managers, randomly sampled from the three enterprise forms, in a hierarchical range stretching from top and middle management to first-line management. These managers were drawn from Beijing and cities and counties of Hebei province, covering a large area of Northern China. A questionnaire survey was conducted between September 2000 and July 2001. In the first stage, collectively owned and privately owned enterprises from Beijing and Hebei province were contacted. Firm size was chosen in terms of the number of full-time employees. Firms were selected at random from different industry groups with the support of local officials for access. Three private enterprises in Beijing and five in cities and counties of Hebei province were chosen. Three collective enterprises in Beijing and seven in cities and counties in Hebei province were chosen to collect data. All questionnaires were distributed and collected through firm authorities. Although the response rate of 75 percent is very high from both types of organizations, the rate of useable questionnaires is low. Only 80 percent of the returned questionnaires are useable. In the second stage, joint ventures were drawn from Sino-foreign joint ventures in Hebei province. The Chinese partners of these joint ventures were state-owned enterprises. With the same administrative procedure, the response rate was 70 percent.

The sample of useable questionnaires consisted of responses from 86 managers in collectively owned enterprises, 135 managers in private organisations and 89 managers from Sino-foreign joint ventures. Respondents from joint ventures were older and had been in management longer than those respondents from collectives and privately owned organizations. However, the average level of education was highest for privately owned organizations and lowest for collectives.

(Table 1 about here)

## Survey Design and Measures

The survey instrument was developed by conducting literature reviews and adopting standard validation measurements. First, existing measurement scales were identified through a review of prior research. All the items used in the survey were adopted and modified from the literature. Second, because the survey was of managers' trust, the perspective of the scales was shifted from a peer–interpersonal relationship to the views of a manager.

**Dependent variables.** Trust was measured using three scales modified from the trust survey questionnaire of Rempel and colleagues (1985). Trust Scale 1—trust in good faith—tested the extent to which a manager believed that subordinates would be trustworthy in the future, beyond the available evidence. Trust Scale 2—trust in dependability—tested the extent to which a manager believed that subordinates were dependable and reliable, and able to act competently and responsibly, rather than intending to take advantage. Trust Scale 3—trust in predictability—tested a manager's belief that subordinates were consistent, stable and predictable in terms of past patterns of behaviour.

**Independent and control variables.** Power distance was measured using Robertson and Hoffman's (2000) measurement. Collectivism was measured using a scale 'Vertical Collectivism' from Chen and his colleagues' (1997) 'Vertical and Horizontal Collectivism Questionnaire'. Demographic data consisted of gender, age, the level of position, the education level, the length of experience in management, and current managerial position are controlled for the potential effects on trust through independent variables power distance and collectivism.

The questionnaire was translated from an English version, 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.

## Analyses

The main analysis of this study involves a comparison among the three types of ownership enterprises (collectively owned, privately owned and joint ventures) and regression on trust dimensions with scales: *Trust in Faith* (Cronbach alpha =0.84), *Trust in Dependability* (Cronbach alpha =0.71), and *Trust in Predictability* (Cronbach alpha =0.70) as dependent variables, and cultural values of *Power Distance* (Cronbach alpha =0.78) and *Vertical Collectivism* (Cronbach alpha =0.70) as independent variables. For these tested 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 preference on the scale. Prior to statistical analysis, the responses to a number of items were reverse coded, so that all items measured with a higher score representing the construct to a greater extent.

A one-way ANOVA and the LSD analysis of the post hoc were conducted to identify specifically differences on trust variables between managers of these ownership types by comparing means. An ownership dummy variable was formed based on joint ventures, privately and collectively owned enterprises respectively, with codes 1 and 0. In the hierarchical regression analysis, trust in good faith, trust in dependability, and trust in predictability were regressed on demographic variables (Step 1), cultural values of power distance and collectivism (Step 2) and ownership dummy variable (Step 3), which tested effect of cultural values on trust and whether there is a significant difference between ownerships on trust variables and.

## Results

The results of ANOVA and the post hoc tests reported in Table 2 demonstrate mean comparison of demographic, dependent and independent variables to assess ownership-level differences in effect. The results of ANOVA indicate that there are statistically significant associations with organizational ownership for *trust in predictability* ( $F$  value =8.30;  $p < .001$ ), *collectivism* ( $F$  value = 3.35;  $p < .05$ ) and *all demographic variables*. There is no significant difference amongst the managers of the three types of ownership enterprises on the cultural value of power distance. The results of the LSD analysis further indicate that the extent of managers' trust in predictability in privately owned enterprises is highest ( $p < .001$  and  $p < .05$ ), followed, in descending order, by that of those in joint ventures and those in

collectively owned enterprises. Hypothesis 1b, thus, is strongly supported. However, there are not significant differences among the managers of the three types of ownership enterprises on trust in dependability. There is only a significant difference between the managers of private and collective enterprises on trust in faith, with a higher extent of managers in private enterprises. Hypotheses 1a and 1c, therefore, are basically rejected.

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**Table 2 about here**

The means and standard deviations, and the Pearson correlations for demographic variables, trust variables (faith, dependability, predictability), power distance and collectivism are presented in Table 2. The results of correlations indicate that there are negative relations between the value of power distance and two trust variables (with *trust in predictability*,  $r = -0.32$ ,  $p < .001$ ; with *trust in dependability*,  $r = -0.12$ ) and positive relationships between collectivism and all trust variables ( $r = 0.22$ ,  $p < .001$ ;  $r = 0.41$ ,  $p < .001$ ;  $r = 0.22$ ,  $p < .001$ )

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**Table 3 about here**

The results of hierarchical regression reported in Table 3 effects for dependent variables of trust. The demographic variables accounted for relatively little variance in the dependent variables of trust, except for managerial position which has positive both direct and main effects on *trust in predictability* ( $p < .05$ ). The values of power distance and collectivism mediate the relationship between years of managerial position and trust in predictability. The direct effect for collectivism was significantly related to all the three trust variables. However, there were only the negative main and direct effects for power distance related to managers' trust in employee predictability. The results of regression also indicate that the types of ownership were significantly different on the dependent variable *trust in predictability* via the effect of power distance and collectivism ( $p_{coe} < .001$  and  $p_{jiv} < .001$ ). Hypothesis 2a is partially but weakly supported and H2b is partially but strongly supported.

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**Table 4 about here**

## **Discussion**

The purpose of this present study is to compare managers' beliefs related to trust at the management operation level across three types of ownership enterprises in China, in order to understand better the reform effect on China's management. The findings of this research provide insight on the issues and contribute empirical evidence to support the proposition that managers' trust in employee predictability varies amongst ownership types and the cultural values of power distance and collectivism moderate this variance.

### **Theoretical Implications**

The results of the present study are helpful in understanding the development of trust in a specific context and how the national cultural values have an effect on trust, supporting previous conceptual propositions. Firstly, the findings of this study suggest that managers' beliefs about trust in some aspects do vary across different types of ownership in China. The results indicate that the different types of ownership, which are characterized by varying averages of employee quality and autonomy of human resources management, provide references to managers' trust-building strategies with respect to employee predictability. This may indicate that generally although business conditions are extremely competitive, managers trust their employees as predictable, as long as they can influence recruitment and know that the employees are competent.

Secondly, the research, to a certain extent, provides support that cultural values have an impact on the development of trust. The findings of this study suggest that the cultural value of power distance has a negative effect on managers' trust in employee predictability. This provides empirical evidence with the specific aspect of trust to support previous research which generally argues that people placing a high value on allegiance to authority are likely to show low levels of trust with lower status (Williams et al., 1966; Negandhi & Prasad, 1971; Shane, 1993). The findings of this study also suggest that the collectivism value is positively related to trust in predictability, dependability and good faith, especially to the trust in predictability. Trust in predictability and good faith, similar to affect-based trust, is formed a social bond between two parties beyond regular work relationship. This study supports the proposition of Chen and colleagues (1998) that the cultural value of collectivism promotes such an aspect of trust.

Finally, the findings of the study do not provide strong support for the propositions of the relationship between demographic characteristics and trust variables via power distance and collectivism in China's current context. Only the number of years which managers have been in management correlate significantly with their trust in employee predictability. The longer in management, the more managers trust in employee predictability.

### **Practical Implications**

The results of the study provide distinct profiles of managers in COEs, POEs and IJVs in China on managerial beliefs related to trust. Managers in private enterprises hold the highest level of trust in employees' predictability and faith. Managers in this type of enterprise have, on average in this sample, the highest level of education and the highest level of managerial position. Managers in collectively owned enterprises have the lowest levels for all dependent variables of trust. Of the three types of enterprises, on average, COE managers have the shortest period of time in management and the lowest level of education. They are significantly lower in the value of collectivism, which has effects on the extent of management trust in employees. Managers in joint ventures develop the second highest level of trust in employees' faith and predictability amongst the survey sample groups.

Interestingly, there is no statistically significant difference between the three types of ownership enterprises on the value of power distance. This result is not consistent with the findings of Holt's study (1997), which found that there was significant difference between managers in private enterprises and a group composed of managers from joint ventures and state-owned enterprises on this dimension by using an instrument of the Schwarz Value Survey. This may need further study to verify the result.

China's ongoing ownership reform not only changes the structure of the economy but also has a significant impact on managers' ideological systems, which are crucial, enduring determinants of change of management style and, eventually, organizational effectiveness. The findings of the present study indicate that Chinese managers in joint ventures are combining the western modern management skills (know-how) and Chinese values of people orientation, and are developing some positive managerial beliefs and attitudes in operation. They are favourable to trust in employees and collectivism. This positive picture of managerial values and beliefs may indicate that managers of joint ventures are moving in the direction of more effective management. Importantly, this may be a good sign for the foreign



investors interested in further investment in China. Although there are distinctly cross-cultural differences and inevitable cultural conflicts between Chinese managers and expatriates within joint ventures, managers in joint ventures in China are able to develop a congruency along with modern management to operate businesses effectively in the global economy. Learning processes for cultural and management skills can contribute positively to organizational effectiveness in China's joint ventures, if a partnership is strategically chosen and properly nurtured.

Holding an autonomous right to recruit employees, managers in POEs develop a strong sense of trust in the predictability of their subordinates, compared with managers in the other two types of ownership, both of which to some extent remain under government control. Trust in faith and predictability is developed from feelings of confidence and security in the caring responses of others and the strength of a relationship (Rempel, 1985). Selection criteria of recruitment in POE are based on both the quality and the trustworthy relationship, sometimes the latter is more important than the former. This emphasis may provide conditions for managers to believe that their subordinates are loyal and predictable in the long term. In contrast, employees in international joint ventures are mainly chosen by quality rather than being considered trustworthy and from the managers' network. The fact of the young qualified people with a very high rate of turnover in international joint ventures may negatively impose on managers' development of trust in employee predictability and faith, compared with those in POEs.

COEs have played a unique role in China's economic transformation since the early stages of economy reform, sometimes as a bridge of transformation between state-owned enterprise domination and the development of privatization. Their performance in the market has been an impressive phenomenon of the 1980s and early 1990s (Sun, 2000). However, the Chinese central government's acceleration of state-owned enterprise reform and privatization in the late 1990s made managers of these enterprises place more stress on improvement of management systems, while managers in COEs were not fully equipped to handle rapid change and increasingly acute competition in China. It has been reported that many COEs easily became fragile and failed after a few years of modernization and high performance (Xiang, 2001). The findings of the present study, to an extent, provide an explanation for this. Managers in COEs have not shown a strong preference for trust in the predictability and good faith of employees which in turn favour effective motivation, with scores falling in the lowest

range amongst the three types of ownership enterprises. This may be an indication that they need to foster positive managerial beliefs so that increased organizational effectiveness of COEs would offer an improved chance for long-term survival and growth.

### **Limitation**

This study sheds light, through the differences shown in the data, on the trust that varies by ownership in China, but with certain limitations. First, the present study only uses the quality of the employees as the source to understand that managers in different types of ownership built trust in China. However, as mentioned in the literature review section, building trust is a sophisticated psychological process, in which managers are also influenced by other important elements, such as organizational culture, business nature and personalities, to develop trust in employees. These factors definitely need to be explored further in order to understand the development of management trust in China comprehensively. Second, the sample of the present study was limited geographically to the regions of Northern China. Although those cities and counties provide quite a wide coverage, additional data collected from Southern China, which is extremely active in China's enterprise reform, and other areas, would make the findings more generally applicable across all of China. This paper demonstrates the significance of the latter for the deep-seated cultural values: broader regional research might also display additional significant regional variance. Finally, the present study measured the cultural values and trust within the ownership context of China and did not tap more specific variables in relation to form of ownership. For instance, various factors including access to financial resources, the degree of managers' risk sentiment and government support in relation to ownership were not investigated. Future researchers may wish to consider a richer measure of ownership-related factors to account for the relationship between ownership variances and trust and other managerial values.

### **Further Research Direction and Conclusion**

The results of this study suggest several avenues for future research within international studies of values and ownership. There is a need for research into the pivotal role that trust plays in human resource practice, managing the uncertain business environment, and enterprise performance. Knowing how beliefs about trust are related to human resource management and the performance implications for different forms of ownership of enterprises

adds a crucial perspective linking managers' behaviour and outcomes. Employees' perceptions of management trustworthiness and fairness contribute positively to greater organizational effectiveness. It would be significant to explore further the relationships among management trust, employee-related perceptions and organizational performance. Exploring other factors related to trust such as organizational cultures, business environment and personalities provides a comprehensive understanding of the development of management trust.

It is also noted that investigation of wider regions of China is necessary, as China is a large heterogeneous country (except at the most central level) with provinces, regions and cities which vary greatly in subcultures, industrialization and degrees of economic development and enterprise reform.

To understand organizational behaviour better and to avoid wrongly specified models, it is important to examine the context in which behaviour occurs (House et al., 1995). The present study suggests that managerial beliefs of trust and the value of collectivism vary across the ownership context, even where all managers share the same Chinese 'national culture'. The present study provides a practical reference for both Chinese reformers, who want to improve continuously the effectiveness of Chinese enterprises, and foreign investors, who need to make investment decisions with respect to China. Both need to decide which type of ownership enterprises should be chosen as partners to fit their business and how best to operate business in China, with managers with particular types of beliefs and attitudes. The performance of multinational corporations is largely affected by the ability to manage human resources in complex contexts. Insights into specific beliefs of trust pertaining to enterprise ownership in China make possible the prediction of managers' work-related behaviour and thus increase the chances of collaborative success between foreign and Chinese management.

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**Table 1. Demographic Characteristics for Managers in Three Types of Ownership Enterprises in China.**

		COE		POE		JV	
Number in group		86		135		89	
		Mean	SD	Mean	SD	Mean	SD
Age <sup>a</sup>		1.67	.96	1.76	.79	2.40	.86
Education <sup>b</sup>		2.36	.65	3.03	.50	2.93	.45
M. Position <sup>c</sup>		3.05	.92	3.13	.92	2.83	.75
Years in M. <sup>d</sup>		2.13	1.06	2.27	1.18	3.11	1.12
Gender	Male	52 (64.3%)		92 (60.3%)		71 (80.2%)	
	Female	34 (35.7%)		61 (39.7%)		18 (19.8%)	

<sup>a</sup>. Age was coded as: 1= 20-29; 2=30-39; 3= 40-49; 4=50 or over

<sup>b</sup>. Education level was coded as: 1 = primary school; 2= secondary school; 3 = bachelor' degree; 4= postgraduate degree.

<sup>c</sup>. Management position was coded as: 1 = top management; 2 = senior management; 3 = middle management; 4 = first line management.

<sup>d</sup>. 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.

**Table 2. ANOVA on Trust, National Values and Demographic for Collectively Owned, Privately Owned Organizations and Joint Ventures in China**

Variable	COE		POE		IJV		F value
	86		135		89		
	Mean	SD	Mean	SD	Mean	SD	
Gender	1.36 <sub>a</sub>	.48	1.40 <sub>u</sub>	.49	1.19 <sub>a u</sub>	.40	5.80**
Age	1.67 <sub>a</sub>	.96	1.76 <sub>u</sub>	.79	2.40 <sub>a u</sub>	.86	20.66***
Education	2.36 <sub>u, v</sub>	.65	3.03 <sub>u</sub>	.50	2.93 <sub>v</sub>	.45	45.13***
M. Years	2.13 <sub>u</sub>	1.06	2.27 <sub>v</sub>	1.18	3.11 <sub>u v</sub>	1.12	20.49***
Position	3.05	.92	3.13 <sub>a</sub>	.92	2.84 <sub>a</sub>	.75	3.22*
Power Distance	3.34	1.66	3.28	1.14	3.06	1.13	1.20
Collectivism	4.85 <sub>ab</sub>	1.20	5.14 <sub>a</sub>	1.07	5.26 <sub>b</sub>	1.04	3.35*
Trust in predictability	4.42 <sub>ua</sub>	.45	5.13 <sub>u</sub>	1.19	4.84 <sub>a</sub>	1.29	8.30***
Trust in dependability	4.81	1.23	5.07	1.18	5.15	1.13	2.08
Trust in faith	4.83 <sub>a</sub>	1.13	5.16 <sub>a</sub>	1.01	5.10	.94	2.83

Notes:

1. The last column gives the *F* value and its level of significance for ANOVA test of equality of means for the three types of ownership organizations. \**p*<.05; \*\**p*<.001; \*\*\* *p*<.000.
2. Differences between means with the same letter, "a" or "b", indicate statistical significance at the 0.05 level between two types of enterprises, and likewise those with the letters "u" or "v", indicate significantly different at the .001 level.

**Table 3. Means, Standard Deviations, and Pearson Correlations<sup>a</sup> for Variables**

Variable	M	SD	1	2	3	4	5	6	7	8	9	10
1. Age <sup>b</sup>	1.92	.90	—									
2. Education <sup>c</sup>	2.83	.60	.08	—								
3. Years in management <sup>d</sup>	2.48	1.20	.74**	.06	—							
4. Managerial Position <sup>e</sup>	3.06	.85	-.37**	-.30**	-.34**	—						
5. Gender	1.33	.47	-.25**	-.02	-.17**	.04	—					
6. Trust - faith	5.04	1.17	.12*	.05	.13*	-.05	-.04	—				
7. Trust -predictability	4.83	1.31	.03	.06	.08	.00	-.03	.28**	—			
8. Trust - dependability	5.08	.98	.05	.09	.10	-.09	-.03	.59**	.21**	—		
9. Collectivism	5.10	1.11	-.01	-.01	-.00	.14*	.03	.24**	.43**	.23**	—	
10. Power distance	3.26	1.28	.12*	.10	.12*	-.15**	-.02	-.08	-.33**	-.16**	-.41**	—

<sup>a</sup> \* p < .05, \*\* p < .001 (2-tailed).

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

<sup>c</sup> Education level was coded as: 1 = primary school; 2= secondary school; 3 = bachelor' degree; 4 = postgraduate degree.

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

<sup>e</sup> 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.

**Table 4. Hierarchical Regression Analysis of Trust for COEs, IJVs and POEs in China<sup>a</sup>**

Variable	Trust in Predictability			Trust in Dependability			Trust in Faith		
	Model 1	Model 2	Model 3	Model 1	Model 2	Model 3	Model 1	Model 2	Model 3
Gender	-.03	-.03	-.05	-.02	-.02	-.02	-.01	-.01	-.02
Age	-.11	-.10	-.09	-.09	-.09	-.10	.05	.05	.05
Education	.06	.07	-.02	.08	.08	.04	.05	.05	.05
Years in Mgt.	.15	.16*	.17*	.15	.15	.14	.10	.15	.14
Mgt. position	.01	-.06	-.10	-.05	-.09	.10	-.01	-.08	-.10
Power distance		-.22**	-.23**		-.11	-.11		-.01	-.01
Collectivism		.33**	.32**		.20**	.20**		.24**	.24**
Ownership <sup>b</sup>									
COE			-.20**			-.08			-.06
IJV			-.17**			.02			.03
R <sup>2</sup>	.11	.22	.26	.02	.10	.12	.03	.10	.16
Adjust R <sup>2</sup>	.02	.21	.24	.01	.08	.10	.01	.10	.15
F	.90	13**	12.1**	1.27	3.78**	3.01*	1.48	4.62**	3.77**

Observation number: 320

320

320

<sup>a</sup> Standardized coefficients are reported.

\* p < .05; \*\* p < .001

<sup>b</sup> Dummy variables of ownership include POE, COE and IJV



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## THE DEVELOPMENT OF TRUST IN EMPLOYEES: A COMPARATIVE STUDY OF MANAGERS IN COLLECTIVE ENTERPRISES, JOINT VENTURES AND PRIVATE ENTERPRISES IN CHINA

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**Abstract.** There is an increasing necessity for foreign investors to comprehend Chinese staff at management level in specific ownership contexts. Based on investigation of managers drawn from Beijing and Hebei province, the findings of this research contribute evidence to support the proposition that management trust in employees varies in divergent ownership models, including collectively owned, privately owned and joint venture forms in China. The cultural values of power distance and collectivism are also found to have an effect on the trust development of management in these forms of enterprises.

### INTRODUCTION

The Chinese economy was one of the world's fastest growing economies during the 1990s. By the end of 2000, China had attracted a total of US\$474.3 billion in capital investment from foreign direct investment since opening the door to the world in the late 1970s (China State Statistics Bureau, 2001). China's entrance into the World Trade Organization will have a leverage effect on this phenomenon. More and more multinational corporations (MNCs) seek strategic alliance among Chinese enterprises. Learning the details and rules of local business games remains necessary in developing a foundation for their management success in China. A challenge for them is to understand changing and complicated operating systems under China's economy reforms. Currently, state-owned, collectively owned, privately owned and joint venture forms coexist in China. The different forms of these enterprises provide a key source of variance in many organizational aspects of business, such as the relationship with government, management mechanism and resources including human resources (Luo & Chen, 1997; Tan, 1999).

The emergence of multiple forms of ownership in China poses some central organizational research questions regarding management. Whether managers of various ownership enterprises have developed different levels of trust in their employees, which may substantially influence their managerial practice, with facing divergent operation conditions? Specifically, do Chinese managers in joint ventures, who are originally from state-owned enterprises, trust in their employees in a context where managers need to adapt new hybrid Chinese/Western management practices? Do Chinese managers in privately owned enterprises place more trust in employees and invite more employee participation than Chinese managers in collectively owned enterprises?

## THEORETICAL CONCEPTS AND HYPOTHESES

Managers' values and beliefs have a complex impact on the practice of management and leadership (Szabo et al., 2001). To understand and predict managers' behaviour towards work and subordinates, it is important to identify managerial beliefs about trust in relation to the organizational complex. Prior work on China's management has focused on national values in various groups, such as managers, business students and entrepreneurs (Hofstede, 1993; Ralston et al., 1993; Schwartz & Sagiv, 1995; Smith et al., 1996; Holt, 1997; Ralston et al., 1999), but more relevant aspects of beliefs and behaviours at the management level have been under-explored. There is an increasing necessity for foreign investors to understand the beliefs and behaviours of Chinese staff at the management level in specific ownership contexts, as localization of foreign-invested companies has become a crucial issue. Previous studies of China's enterprise ownership focused on 'organizational hardware' such as human resource policies, strategy orientations, performance and alliances between international business partners (Defilippo, 1997; Luo & Chen, 1997; Zhu & Dowling, 2000; White & Liu, 2001). However, much less attention has been given to organizational 'software' such as operation-related managerial beliefs and attitudes. Those psychological factors, which are crucial for any business to be successful, may also vary in different types of ownership in China, once substantial operations have been established.

Previous research proposes that cultural values have an influence on the development of trust. Researchers suggest that low degrees of interpersonal trust correlate with a high power distance (Shane, 1993) and that trust is lower in countries with dominant hierarchical social values (Porta et al., 1997). Chen and his colleagues (1998) argue that cognitive-based trust is enhanced by individualism, while development of affect-based trust is promoted by collectivism. This study, thus, not only conjectures that different forms of ownership in China, because of their different human resources, will be associated with variations on the issues of trust, but also assumes that national values of power distance and individualism-collectivism will affect these issues.

In this empirical investigation, the focus is first on the extent to which managerial beliefs vary in divergent ownership models, including collectively owned, privately owned and joint venture forms, using the dimensions of trust; and second, on the extent to which cultural values of power distance and collectivism affect management trust in the context of these ownership forms.

Theoretically and practically, patterns of ownership are assumed to shape managers' perceptions, beliefs, attitudes and related behaviours. It is argued that an understanding of the relationship between ownership types and domain dimensions may help to reveal the underlying logic of an organization's activities (Mascarenhas, 1989). Ownership factors have been identified as a determinant for trust development (Chan 1997; Whitener et al., 1998). Ownership is found to lead directly to particular autonomy on human resource practices and subordination policies in China (Zhu & Dowling, 1998; Jefferson, 1999). As a result, demographic characteristics and social values of employees in different forms of enterprises may vary and are likely to lead to the degree of management trusts in employees. Understanding differences in trust in employees among Chinese collectively owned, privately owned and joint venture enterprises advances our knowledge of how to select business partners effectively and how to operate effectively in the context of China's ongoing reform.

Whitener and his colleagues (1998) argue that the antecedent of a positive leader-member relationships is trustworthy behaviour by managers. In other words, managerial behaviour on the dimensions of trust initiates the mutual trust between leader and followers, which leads to followers' organizational commitment (Masterson et al., 2000). In the trust-building process, it is the trust that managers vest in employees that makes them trustworthy (Ray, 1994; Shaw, 1997).

### TRUST

Trust has been studied from several disciplinary perspectives, such as economics, psychology, sociology, social psychology and political science, with different methods (Bhattacharya & Devinney, 1998). Inevitably, scholars of diverse disciplines draw different definitions and conclusions on the fundamental nature of trust. The present research looks at management trust more from perspectives of psychology and social psychology. Building trust is a sophisticated psychological process, which involves the person who is vesting trust to engage in multiple processes of calculation, predication and perception about the trustee's intentions and capacity (Butler & Centrell, 1984; Doney et al., 1998). Rempel and his colleagues (1985) argue that trust in the targeted person's dependability, predictability and good faith reflects key aspects in the trust-building process.

Based on the quality and attributions of the target's current behaviour, investors in trust increase their *trust in the target's dependability*. Trust is an exchange relationship in which risk or vulnerability is involved (Rousseau et al., 1998). Both Shapiro and colleagues (1992) and Adler (2001) suggest that trust in business relationships develops on a calculative basis, as parties try to determine the nature of their interdependence, what benefit they will obtain from the relationship and give to it, and what risks and vulnerabilities they are likely to be exposed to in the process. Trust is only developed when one who is vesting that trust perceives that a target's intentions in the exchange are benevolent and dependable (Lewicki & Bunker, 1996). The competence and responsibility of the person in whom trust is being vested, therefore, are central for the other person to invest in trust building (Barber, 1983; Shapiro, 1987; McAllister, 1995; Chen et al., 1998).

It is also argued that based on previous experience of the target's stability and consistency of behavioural patterns, investors in trust develop *trust on the basis of predictability*. The investment of trust is positively developed further when trustees consistently interact benevolently in prior encounters (Stack, 1978; Adler, 2001). Trust in predictability emerges when the person vesting trust gains confidence in his or her ability to predict the target's future behaviour with accuracy (Rempel et al., 1985; Doney et al., 1998).

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 (Rempel et al., 1985). Trust requires one party to believe that it is important to depend on the other party and to have positive, confident expectations that they will behave competently and honestly in achieving common goals (Das & Teng, 1998).

Likewise, management trust in subordinates' dependability, predictability and faith is related to the degree to which a manager believes that subordinates are capable of carrying out and willing to carry out their jobs independently, and are also capable of sharing responsibility in work (Graen & Uhl-Bien, 1995; Wang & Clegg, 2002). Research on leader-member exchange suggests that high-quality exchange relationships involve showing mutual respect and sharing decision control (Dienesch & Liden, 1986; Liden & Maslyn, 1993). To obtain true employee involvement, managers must send a clear message to employees that they are trusted and their participation is valued (Ray, 1994; Kelly & Weber, 1995; Lindsay, 1996). Managers, from a social exchange perspective, exhibit trust in subordinates to provide social rewards in order to gain their support, compliance and loyalty (Marcus & House, 1973; Graen & Scandura, 1987). In the this study, in the context of a vertical interaction of management processes, trust is defined as the belief of managers in the importance of depending on employees and having positive, confident expectations and faith of competent behaviour and honesty in achieving common goals, with a predictable outcome, even in the face of uncertain circumstances. Trust dependability, predictability and faith of employees is a key for this defined managerial belief.

### PATTERNS OF OWNERSHIP AND TRUST IN CHINA

China is transforming from a centrally planned economy into one that is more market oriented, with five types of economic ownership characterizing the present conjuncture: state, collective and private ownership coexist and compete with Sino-foreign joint ventures and fully foreign-owned enterprises. These heterogeneous ownership types vary significantly in their degree of government administrative intervention as well as in the human resources available to them. The impact of ownership types on selection practice and human resource management preferences has been identified and there are significant differences on selection criteria and hiring practice across joint ventures and privately and collectively owned enterprises in the context of China's enterprise reform (Zhu & Dowling, 1998). Consequently, those types of ownership enterprises may possess different demographic characteristics and qualities of employees, including managers. The management of these three different types of ownership enterprises is likely to develop dimensions of trust in dependability, predictability and good faith to different degrees.

Collectively owned enterprises (COEs) are established and supported by local governments rather than by the central government. Compared with the central government, local governments usually have limited resources to offer collectively owned enterprises. Typically, COEs find it difficult to attract and maintain sufficient quality employees for their operation, especially in managerial positions. Graduates of university and colleges rarely choose or are officially appointed to join COEs, which are believed to have low profile status and limited welfare (Sun, 2000), enjoying, in most cases, the least rank among ownership enterprises. Under the mandates of the local government, the employees of COEs are mainly composed of local residents of variable quality, who are desirous of other jobs in better workplaces. They cannot select employees against their own preferred criteria in terms of dependability, loyalty and quality. Employees' capacity, psychological maturity (e.g. honesty and responsibility), and behavioural consistency in COEs, therefore, are seen as weak by management. There would be unjustified risk from a management point of view in developing trust through power sharing with subordinates. COEs usually develop a simple, centralized organizational structure (Tan, 1999; Jiang & Hall, 1996), which may indicate management's deep concern about their employees' quality and the high business risks that they face. With tough business

conditions and tight control by local government of their recruitment, managers in COEs can not select the employees autonomously and are less likely to trust in employee dependability, good faith and predictability than those in joint ventures and private enterprises.

Almost all privately owned enterprises (POEs) in China initiate their business in a highly competitive environment with neither central nor local government support. The tough business conditions imposed on these private enterprises force them to adopt a significantly different human resources system from their counterparts. With respect to human resource management, private companies in China are the only type of ownership that has thorough autonomy to recruit employees. Nepotism and favouritism in filling the management structure are used to avoid extremely high uncertainty. Although managers in private enterprises have been identified as higher risk takers compared with managers of SOEs and joint ventures (Holt, 1997), they have been seen to justify the need to reduce their risk. They believe that friends and relatives are trustworthy, even though their competence is sometimes questionable, and that, in an extremely uncertain and tough environment, one reduces business risk by hiring such people as managers (Lau et al., 1999). Managers believe they can predict such followers' behaviour patterns and maintain their good faith by virtue of knowing and trusting them for a long time. In a Chinese cultural context, prevailing social values of reciprocity and 'face' strengthen such perceptions and belief. Managers are likely to believe that people who are selected for tough conditions through particular criteria of 'guanxi', should think that they have been given 'face' and trust, and hence should show their allegiance to management in return. POE management also uses competency criteria when selecting unfamiliar new employees who are not from their network. Consequently, managers in private enterprises are likely to have the strongest trust in employees' good faith and predictability, while amongst the three types of ownership, they have only a reasonable level of trust in dependability compared with those in joint ventures.

International joint ventures in the Chinese context invariably comprise a domestic firm and a foreign partner. The ownership form of the domestic partner is usually that of a state-owned enterprise (Goodall and Warner, 1999), though this may vary across the other types. To ensure business success and attract more foreign direct investment, various levels of the Chinese government always selects the best state-owned enterprises of industries to be one partner in Sino-foreign joint ventures. These selected enterprises not only have better equipment but also possess relatively high quality employees for that particular industry. Joint ventures, with higher salaries in comparison with local companies (Leung et al., 1996) and knowledge-learning advantages, are strongly attractive for young qualified people to join. These enterprises thus have a better chance of selecting the best-qualified people. Therefore, managers in joint ventures are likely to have more grounds for trusting in employees' dependability than ones in other types of enterprise, which is likely to become of the highest degree of management trust. However, a special report indicates that the young qualified people employed are 'frequent fliers' who have a very high rate of turnover in joint ventures (Goodall and Willem, 1998). This is most likely to lower the extent of management trust in employee predictability and faith in joint ventures, compared with managers in the private and collective enterprises. The present study, thus, hypothesizes that

*H1a: Managers in joint ventures will have the highest trust in employees' dependability, followed, in descending order, by those in privately owned and collectively owned enterprises.*

H1b: Managers in privately owned enterprises will have the highest trust in employee predictability, followed, in descending order, by those in joint ventures and those in collectively owned enterprises.

H1c: Managers in privately owned enterprises will have the highest trust in employees' faith, followed, in descending order, by those in joint ventures and managers in collectively owned enterprises.

National cultural dimensions have been identified as a useful tool for understanding people's particular perceptions and behaviours. It has been proposed that the dimensions of individualism-collectivism and power distance through cognitive processes have an impact on trust-building processes (Shane, 1993; Mente, 1994; Porta et al., 1997; Chen et al., 1998; Doney et al., 1998). Individualism-collectivism refers to the relationship between the individual and the collectivity that prevails in society: a self versus a group orientation. Chen and his colleagues (1998) argue that cognitive based trust, which is based on other's performance behaviour and accomplishment, similar to trust in dependability, is enhanced by individualism, while development of affect-based trust, which is formed in a social-emotional bond the goes beyond regular business professional relationship—goodwill / trust in good faith is promoted by collectivism. The cultural value of the power distance dimension addresses ideological orientation and behavioural adaptation to authority. People placing a high value on allegiance to authority are likely to show low levels of trust with lower status. It is found to relate negatively to trust in cross-cultural studies (Williams et al., 1966; Negandhi & Prasad, 1971; Shane, 1993). Mente (1994) argues that it is the presence of hierarchical values which leads to a climate of non-trust in Chinese organizations in the PRC.

Doney and his colleagues (1998) argue that context may play a role in determining the relationship between cultural and managerial preferences, and that situational factors may influence the relevance of particular cultural dimensions. Therefore, it would be helpful to gain a deeper understanding of trust by looking at the effect of individualism-collectivism and power distance in relation to the different forms of ownership and trust. Although Chinese employees, in general, are believed to devalue vertical job involvement because of high power distance (Mente, 1994; Pelled & Xin, 1997), current one-person control structures in POEs and implementation of contemporary management in joint ventures are likely to be derived from the fact that managers in POEs develop higher degrees of this dimension than do those in joint ventures. Managers' individualism in POEs has been found to be significantly higher than that of managers in SOEs and joint ventures (Holt, 1997). Additionally, demographic characteristics are found to be related to cultural values in China's context. Studies by Birnbaum -More and colleagues (1995) and by Ralston and associates (1999) argue that the age of managers is related to the value of individualism-collectivism, though their conclusions on the direction of such a relationship are contradictory. All these arguments of previous research indicate that cultural values may have an effect on trust through the demographic characteristics. This study focuses on testing the effect of collectivism and power distance on trust related to these characteristics. It, thus, is hypothesized that

H2a: Cultural values of power distance are negatively related to the managers' trust (in predictability, dependability and good faith) through demographic characteristics of China's private and collective enterprises and joint ventures.

H2b: Cultural values of collectivism are positively related to the managers' trust (in predictability, dependability and good faith) through demographic characteristics of China's private and collective enterprises and joint ventures.

## METHODS

### Sample and Procedure

The sample for this study consisted of 310 managers, randomly sampled from the three enterprise forms, in a hierarchical range stretching from top and middle management to first-line management. These managers were drawn from Beijing and cities and counties of Hebei province, covering a large area of Northern China. A questionnaire survey was conducted between September 2000 and July 2001. In the first stage, collectively owned and privately owned enterprises from Beijing and Hebei province were contacted. Firm size was chosen in terms of the number of full-time employees. Firms were selected at random from different industry groups with the support of local officials for access. Three private enterprises in Beijing and five in cities and counties of Hebei province were chosen. Three collective enterprises in Beijing and seven in cities and counties in Hebei province were chosen to collect data. All questionnaires were distributed and collected through firm authorities. Although the response rate of 75 percent is very high from both types of organizations, the rate of useable questionnaires is low. Only 80 percent of the returned questionnaires are useable. In the second stage, joint ventures were drawn from Sino-foreign joint ventures in Hebei province. The Chinese partners of these joint ventures were state-owned enterprises. With the same administrative procedure, the response rate was 70 percent.

**Table 1. Demographic Characteristics for Managers in Three Types of Ownership Enterprises in China.**

Number in group	COE		POE		JV	
	86		135		89	
Age <sup>a</sup>	Mean	SD	Mean	SD	Mean	SD
Education <sup>b</sup>	2.36	.65	3.03	.50	2.93	.45
M. Position <sup>c</sup>	3.05	.92	3.13	.92	2.83	.75
Years in M. <sup>d</sup>	2.13	1.06	2.27	1.18	3.11	1.12
Gender	Male	52 (64.3%)	92 (60.3%)	71 (80.2%)		
	Female	34 (35.7%)	61 (39.7%)	18 (19.8%)		

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

b. Education level was coded as: 1 = primary school; 2= secondary school; 3 = bachelor degree; 4= postgraduate degree.

c. Management position was coded as: 1 = top management; 2 = senior management; 3 = middle management; 4 = first line management.

d. 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.

The sample of useable questionnaires consisted of responses from 86 managers in collectively owned enterprises, 135 managers in private organisations and 89 managers from Sino-foreign

joint ventures. Respondents from joint ventures were older and had been in management longer than those respondents from collectives and privately owned organizations. However, the average level of education was highest for privately owned organizations and lowest for collectives.

#### Survey Design and Measures

The survey instrument was developed by conducting literature reviews and adopting standard validation measurements. First, existing measurement scales were identified through a review of prior research. All the items used in the survey were adopted and modified from the literature. Second, because the survey was of managers' trust, the perspective of the scales was shifted from a peer-interpersonal relationship to the views of a manager.

**Dependent variables.** Trust was measured using three scales modified from the trust survey questionnaire of Rempel and colleagues (1985). Trust Scale 1—trust in good faith—tested the extent to which a manager believed that subordinates would be trustworthy in the future, beyond the available evidence. Trust Scale 2—trust in dependability—tested the extent to which a manager believed that subordinates were dependable and reliable, and able to act competently and responsibly, rather than intending to take advantage. Trust Scale 3—trust in predictability—tested a manager's belief that subordinates were consistent, stable and predictable in terms of past patterns of behaviour.

**Independent and control variables.** Power distance was measured using Robertson and Hoffman's (2000) measurement. Collectivism was measured using a scale 'Vertical Collectivism' from Chen and his colleagues' (1997) 'Vertical and Horizontal Collectivism Questionnaire'. Demographic data consisted of gender, age, the level of position, the education level, the length of experience in management, and current managerial position are controlled for the potential effects on trust through independent variables power distance and collectivism.

The questionnaire was translated from an English version, 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.

#### Analyses

The main analysis of this study involves a comparison among the three types of ownership enterprises (collectively owned, privately owned and joint ventures) and regression on trust dimensions with scales: *Trust in Faith* (Cronbach alpha =0.84), *Trust in Dependability* (Cronbach alpha =0.71), and *Trust in Predictability* (Cronbach alpha =0.70) as dependent variables, and cultural values of *Power Distance* (Cronbach alpha =0.78) and *Vertical Collectivism* (Cronbach alpha =0.70) as independent variables. For these tested 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 preference on the scale. Prior to statistical analysis, the responses to a number of items were reverse coded, so that all items measured with a higher score representing the construct to a greater extent.

A one-way ANOVA and the LSD analysis of the post hoc were conducted to identify specifically differences on trust variables between managers of these ownership types by

comparing means. An ownership dummy variable was formed based on joint ventures, privately and collectively owned enterprises respectively, with codes 1 and 0. In the hierarchical regression analysis, trust in good faith, trust in dependability, and trust in predictability were regressed on demographic variables (Step 1), cultural values of power distance and collectivism (Step 2) and ownership dummy variable (Step 3), which tested effect of cultural values on trust and whether there is a significant difference between ownerships on trust variables.

## RESULTS

The results of ANOVA and the post hoc tests reported in Table 2 demonstrate mean comparison of demographic, dependent and independent variables to assess ownership-level differences in effect. The results of ANOVA indicate that there are statistically significant associations with organizational ownership for *trust in predictability* ( $F$  value =8.30;  $p < .001$ ), *collectivism* ( $F$  value = 3.35;  $p < .05$ ) and *all demographic variables*. There is no significant difference amongst the managers of the three types of ownership enterprises on the cultural value of power distance. The results of the LSD analysis further indicate that the extent of managers' trust in predictability in privately owned enterprises is highest ( $p < .001$  and  $p < .05$ ), followed, in descending order, by that of those in joint ventures and those in collectively owned enterprises. Hypothesis 1b, thus, is strongly supported. However, there are not significant differences among the managers of the three types of ownership enterprises on trust in dependability. There is only a significant difference between the managers of private and collective enterprises on trust in faith, with a higher extent of managers in private enterprises. Hypotheses 1a and 1c, therefore, are basically rejected.

Table 2. ANOVA on Trust, National Values and Demographic for Collectively Owned, Privately Owned Organizations and Joint Ventures in China

Variable	COE <sup>86</sup>		POE <sup>135</sup>		IJV <sup>89</sup>		F value
	Mean	SD	Mean	SD	Mean	SD	
Gender	1.36 <sub>a</sub>	.48	1.40 <sub>a</sub>	.49	1.19 <sub>a</sub>	.40	5.80**
Age	1.67 <sub>a</sub>	.96	1.76 <sub>u</sub>	.79	2.40 <sub>u</sub>	.86	20.66***
Education	2.36 <sub>u</sub>	.65	3.03 <sub>u</sub>	.50	2.93 <sub>v</sub>	.45	45.13***
M. Years	2.13 <sub>u</sub>	1.06	2.27 <sub>v</sub>	1.18	3.11 <sub>u</sub>	1.12	20.49***
Position	3.05	.92	3.13 <sub>a</sub>	.92	2.84 <sub>a</sub>	.75	3.22*
Power Distance	3.34	1.66	3.28	1.14	3.06	1.13	1.20
Collectivism	4.85 <sub>ab</sub>	1.20	5.14 <sub>a</sub>	1.07	5.26 <sub>u</sub>	1.04	3.35*
Trust in predictability	4.42 <sub>u</sub>	.45	5.13 <sub>u</sub>	1.19	4.84 <sub>a</sub>	1.29	8.30***
Trust in dependability	4.81	1.23	5.07	1.18	5.15	1.13	2.08
Trust in faith	4.83 <sub>a</sub>	1.13	5.16 <sub>a</sub>	1.01	5.10	.94	2.83

#### Notes:

- The last column gives the  $F$  value and its level of significance for ANOVA test of equality of means for the three types of ownership organizations. \* $p < .05$ ; \*\* $p < .001$ ; \*\*\*  $p < .000$ .
- Differences between means with the same letter, "a" or "b", indicate statistical significance at the 0.05 level between two types of enterprises, and likewise those with the letters "u" or "v", indicate significantly different at the .001 level.

The means and standard deviations, and the Pearson correlations for demographic variables, trust variables (faith, dependability, predictability), power distance and collectivism are presented in Table 2. The results of correlations indicate that there are negative relations between the value of power distance and two trust variables (with trust in predictability,  $r = -0.32$ ,  $p < .001$ ; with trust in dependability,  $r = -0.12$ ) and positive relationships between collectivism and all trust variables ( $r = 0.22$ ,  $p < .001$ ;  $r = 0.41$ ,  $p < .001$ ;  $r = 0.22$ ,  $p < .001$ )

**Table 3. Means, Standard Deviations, and Pearson Correlations a for Variables**

Variable	M	SD	1	2	3	4	5	6	7	8	9	10
1. Age <sup>b</sup>	1.92	.90	—									
2. Education <sup>c</sup>	2.83	.60	.08	—								
3. Years in management <sup>d</sup>	2.48	1.20	.74**	.06	—							
4. Managerial Position <sup>e</sup>	3.06	.85	-.37**	-.30**	-.34**	—						
5. Gender	1.33	.47	-.25**	-.02	-.17**	.04	—					
6. Trust - faith	5.04	1.17	.12*	.05	.13*	-.05	-.04	—				
7. Trust -predictability	4.83	1.31	.03	.06	.08	.00	-.03	.28**	—			
8. Trust - dependability	5.08	.98	.05	.09	.10	-.09	-.03	.59**	.21**	—		
9. Collectivism	5.10	1.11	-.01	-.01	-.00	.14*	.03	.24**	.43**	.23**	—	
10. Power distance	3.26	1.28	.12*	.10	-.12*	-.15**	-.02	-.08	-.33**	-.16**	-.41**	—

<sup>a</sup>  $p < .05$ , \*\*  $p < .001$  (2-tailed).

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

<sup>c</sup> Education level was coded as: 1 = primary school; 2= secondary school; 3 = bachelor' degree; 4 = postgraduate degree.

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

<sup>e</sup> 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.

The results of hierarchical regression reported in Table 3 effects for dependent variables of trust. The demographic variables accounted for relatively little variance in the dependent variables of trust, except for managerial position which has positive both direct and main effects on *trust in predictability* ( $p < .05$ ). The values of power distance and collectivism mediate the relationship between years of managerial position and trust in predictability. The direct effect for collectivism was significantly related to all the three trust variables. However, there were only the negative main and direct effects for power distance related to managers' trust in employee predictability. The results of regression also indicate that the types of ownership were significantly different on the dependent variable *trust in predictability* via the effect of power distance and collectivism ( $p_{coe} < .001$  and  $p_{jiv} < .001$ ). Hypothesis 2a is partially but weakly supported and H2b is partially but strongly supported.

## DISCUSSION

The purpose of this present study is to compare managers' beliefs related to trust at the management operation level across three types of ownership enterprises in China, in order to understand better the reform effect on China's management. The findings of this research provide insight on the issues and contribute empirical evidence to support the proposition that managers' trust in employee predictability varies amongst ownership types and the cultural values of power distance and collectivism moderate this variance.

**Table 4. Hierarchical Regression Analysis of Trust for COEs, IJVs and POEs in China<sup>a</sup>**

Variable	Trust in Predictability			Trust in Dependability			Trust in Faith		
	Model 1	Model 2	Model 3	Model 1	Model 2	Model 3	Model 1	Model 2	Model 3
Gender	-.03	-.03	-.05	-.02	-.02	-.02	-.01	-.01	-.02
Age	-.11	-.10	-.09	-.09	-.09	-.10	.05	.05	.05
Education	.06	.07	-.02	.08	.08	.04	.05	.05	.05
Years in Mgt.	.15	.16*	.17*	.15	.15	.14	.10	.15	.14
Mgt. position	.01	-.06	-.10	-.05	-.09	.10	-.01	-.08	-.10
Power distance		-.22**	-.23**		-.11	-.11		-.01	-.01
Collectivism		.33**	.32**		.20**	.20**		.24**	.24**
Ownership <sup>b</sup>									
COE			-.20**			-.08			-.06
IJV			-.17**			.02			.03
R <sup>2</sup>	.11	.22	.26	.02	.10	.12	.03	.10	.16
Adjust R <sup>2</sup>	.02	.21	.24	.01	.08	.10	.01	.10	.15
F	.90	13**	12.1**	1.27	3.78**	3.01*	1.48	4.62**	3.77**

Observation number: 320

320

320

<sup>a</sup> Standardized coefficients are reported.

\*  $p < .05$ ; \*\*  $p < .001$

<sup>b</sup> Dummy variables of ownership include POE, COE and IJV

## Theoretical Implications

The results of the present study are helpful in understanding the development of trust in a specific context and how the national cultural values have an effect on trust, supporting previous conceptual propositions. Firstly, the findings of this study suggest that managers' beliefs about trust in some aspects do vary across different types of ownership in China. The results indicate that the different types of ownership, which are characterized by varying averages of employee quality and autonomy of human resources management, provide references to managers' trust-building strategies with respect to employee predictability. This may indicate that generally although business conditions are extremely competitive, managers trust their employees as predictable, as long as they can influence recruitment and know that the employees are competent.

Secondly, the research, to a certain extent, provides support that cultural values have an impact on the development of trust. The findings of this study suggest that the cultural value of power distance has a negative effect on managers' trust in employee predictability. This provides empirical evidence with the specific aspect of trust to support previous research which generally argues that people placing a high value on allegiance to authority are likely to show low levels of trust with lower status (Williams et al., 1966; Negandhi & Prasad, 1971; Shane, 1993). The findings of this study also suggest that the collectivism value is positively related to trust in predictability, dependability and good faith, especially to the trust in predictability. Trust in predictability and good faith, similar to affect-based trust, is formed a social bond between two parties beyond regular work relationship. This study supports the proposition of Chen and colleagues (1998) that the cultural value of collectivism promotes such an aspect of trust.

Finally, the findings of the study do not provide strong support for the propositions of the relationship between demographic characteristics and trust variables via power distance and collectivism in China's current context. Only the number of years which managers have been in management correlate significantly with their trust in employee predictability. The longer in management, the more managers trust in employee predictability.

### **Practical Implications**

The results of the study provide distinct profiles of managers in COEs, POEs and IJVs in China on managerial beliefs related to trust. Managers in private enterprises hold the highest level of trust in employees' predictability and faith. Managers in this type of enterprise have, on average in this sample, the highest level of education and the highest level of managerial position. Managers in collectively owned enterprises have the lowest levels for all dependent variables of trust. Of the three types of enterprises, on average, COE managers have the shortest period of time in management and the lowest level of education. They are significantly lower in the value of collectivism, which has effects on the extent of management trust in employees. Managers in joint ventures develop the second highest level of trust in employees' faith and predictability amongst the survey sample groups.

Interestingly, there is no statistically significant difference between the three types of ownership enterprises on the value of power distance. This result is not consistent with the findings of Holt's study (1997), which found that there was significant difference between managers in private enterprises and a group composed of managers from joint ventures and state-owned enterprises on this dimension by using an instrument of the Schwarz Value Survey. This may need further study to verify the result.

China's ongoing ownership reform not only changes the structure of the economy but also has a significant impact on managers' ideological systems, which are crucial, enduring determinants of change of management style and, eventually, organizational effectiveness. The findings of the present study indicate that Chinese managers in joint ventures are combining the western modern management skills (know-how) and Chinese values of people orientation, and are developing some positive managerial beliefs and attitudes in operation. They are favourable to trust in employees and collectivism. This positive picture of managerial values and beliefs may indicate that managers of joint ventures are moving in the direction of more effective management. Importantly, this may be a good sign for the foreign investors interested in further investment in China. Although there are distinctly cross-cultural differences and inevitable cultural conflicts between Chinese managers and expatriates within joint ventures, managers in joint ventures in China are able to develop a congruency along with modern management to operate businesses effectively in the global economy. Learning processes for cultural and management skills can contribute positively to organizational effectiveness in China's joint ventures, if a partnership is strategically chosen and properly nurtured.

Holding an autonomous right to recruit employees, managers in POEs develop a strong sense of trust in the predictability of their subordinates, compared with managers in the other two types of ownership, both of which to some extent remain under government control. Trust in faith and predictability is developed from feelings of confidence and security in the caring responses of others and the strength of a relationship (Rempel, 1985). Selection criteria of recruitment in POE are based on both the quality and the trustworthy relationship, sometimes the latter is more important than the former. This emphasis may provide conditions for

managers to believe that their subordinates are loyal and predictable in the long term. In contrast, employees in international joint ventures are mainly chosen by quality rather than being considered trustworthy and from the managers' network. The fact of the young qualified people with a very high rate of turnover in international joint ventures may negatively impose on managers' development of trust in employee predictability and faith, compared with those in POEs.

COEs have played a unique role in China's economic transformation since the early stages of economy reform, sometimes as a bridge of transformation between state-owned enterprise domination and the development of privatization. Their performance in the market has been an impressive phenomenon of the 1980s and early 1990s (Sun, 2000). However, the Chinese central government's acceleration of state-owned enterprise reform and privatization in the late 1990s made managers of these enterprises place more stress on improvement of management systems, while managers in COEs were not fully equipped to handle rapid change and increasingly acute competition in China. It has been reported that many COEs easily became fragile and failed after a few years of modernization and high performance (Xiang, 2001). The findings of the present study, to an extent, provide an explanation for this. Managers in COEs have not shown a strong preference for trust in the predictability and good faith of employees which in turn favour effective motivation, with scores falling in the lowest range amongst the three types of ownership enterprises. This may be an indication that they need to foster positive managerial beliefs so that increased organizational effectiveness of COEs would offer an improved chance for long-term survival and growth.

### **Limitation**

This study sheds light, through the differences shown in the data, on the trust that varies by ownership in China, but with certain limitations. First, the present study only uses the quality of the employees as the source to understand that managers in different types of ownership built trust in China. However, as mentioned in the literature review section, building trust is a sophisticated psychological process, in which managers are also influenced by other important elements, such as organizational culture, business nature and personalities, to develop trust in employees. These factors definitely need to be explored further in order to understand the development of management trust in China comprehensively. Second, the sample of the present study was limited geographically to the regions of Northern China. Although those cities and counties provide quite a wide coverage, additional data collected from Southern China, which is extremely active in China's enterprise reform, and other areas, would make the findings more generally applicable across all of China. This paper demonstrates the significance of the latter for the deep-seated cultural values: broader regional research might also display additional significant regional variance.

Finally, the present study measured the cultural values and trust within the ownership context of China and did not tap more specific variables in relation to form of ownership. For instance, various factors including access to financial resources, the degree of managers' risk sentiment and government support in relation to ownership were not investigated. Future researchers may wish to consider a richer measure of ownership-related factors to account for the relationship between ownership variances and trust and other managerial values.

### **Further Research Direction and Conclusion**

The results of this study suggest several avenues for future research within international studies of values and ownership. There is a need for research into the pivotal role that trust



plays in human resource practice, managing the uncertain business environment, and enterprise performance. Knowing how beliefs about trust are related to human resource management and the performance implications for different forms of ownership of enterprises adds a crucial perspective linking managers' behaviour and outcomes. Employees' perceptions of management trustworthiness and fairness contribute positively to greater organizational effectiveness. It would be significant to explore further the relationships among management trust, employee-related perceptions and organizational performance. Exploring other factors related to trust such as organizational cultures, business environment and personalities provides a comprehensive understanding of the development of management trust.

It is also noted that investigation of wider regions of China is necessary, as China is a large heterogeneous country (except at the most central level) with provinces, regions and cities which vary greatly in subcultures, industrialization and degrees of economic development and enterprise reform.

To understand organizational behaviour better and to avoid wrongly specified models, it is important to examine the context in which behaviour occurs (House et al., 1995). The present study suggests that managerial beliefs of trust and the value of collectivism vary across the ownership context, even where all managers share the same Chinese 'national culture'. The present study provides a practical reference for both Chinese reformers, who want to improve continuously the effectiveness of Chinese enterprises, and foreign investors, who need to make investment decisions with respect to China. Both need to decide which type of ownership enterprises should be chosen as partners to fit their business and how best to operate business in China, with managers with particular types of beliefs and attitudes. The performance of multinational corporations is largely affected by the ability to manage human resources in complex contexts. Insights into specific beliefs of trust pertaining to enterprise ownership in China make possible the prediction of managers' work-related behaviour and thus increase the chances of collaborative success between foreign and Chinese management.

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