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## **Informal institutional constraints and their impact on HRM and employee satisfaction: evidence from China's retail sector**

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This paper seeks to assess whether informal institutions can affect human resource management practices. Specifically, we examine whether the social norm of respect for authority, an important informal social institution in countries like China, constrains employee participation, and whether this affects employee satisfaction in foreign-invested and state-owned retailers in China, respectively. Data are derived from questionnaires completed by almost 1900 employees at 22 foreign-invested and state-owned retail stores in nine Chinese cities. We indicate that a norm such as respect for authority can operate as a constraint on human resource management practices such as employee participation with related impacts upon satisfaction levels in foreign-invested and state-owned retailers, but that these play out in unexpected ways.

**Keywords:** China; HRM; institutions; participation; respect for authority; retail

### **Introduction**

Effective human resources management can bring competitive advantages to firms and is often considered as a critical determinant of organizational performance and profitability (e.g. Huselid 1995; Fey and Björkman 2001; Björkman and Fan 2002; Lau, Tse and Zhou 2002; Law, Tse and Zhou 2003; Sun, Aryee and Law 2007). Meanwhile, it is widely believed that powerful institutions, which include both formal organizations – social, economic and political bodies – and the social norms and rules that these organizations articulate (North 1990; Scott 1995), can constrain the style of management, such as the form of human resources management, as institutional inertia may drive firms' choices of human resource management (HRM) practices (Buck, Filatotchev, Demina and Wright 2003; Warner 2008). Although researchers increasingly examine the importance of institutions in shaping business practices in transitional economies (e.g. Child and Tse 2001; Law et al. 2003; Peng 2003; Meyer and Peng 2005), much remains to be done, especially with respect to the role and impact of informal institutions.

Much research has focused on the influence of formal institutions on management, such as legislation, ownership and regional development (e.g. Tang 1993; Child 1994; Warner 1996; Lau et al. 2002; Law et al. 2003; Meyer and Peng 2005; Björkman, Fey and Park 2007). While formal institutional changes have been implemented, though, informal institutions may lag behind. North (1990) argues that informal constraints come from the cultural transmission of values, underpinned by ideological reinforcements. Developing

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norms of behaviour that will support and legitimize new formal rules is a lengthy, incremental process (North 1994). The inertia of informal institutional structures is likely to inhibit the application of new management prescriptions (Gooderham, Nordhaug and Ringdal 1999; Child and Tse 2001).

So far, much less attention has been paid to the role of informal institutions, which may constrain management practices and accordingly firm performance. Our study aims to fill such a gap by assessing the constraints of informal institutions with specific reference to the norm of respect for authority on employee participation and satisfaction in retailers in China. Employee participation is reported to be a key element of high performance HRM systems (e.g. Huselid 1995; Pfeffer 1998; Boxall and Purcell 2003). In the Chinese context, respect for hierarchy has been built into the social structure of organizations (Farh, Earley and Lin 1997), which still guide individual actions and attitudes in modern Chinese societies (Hofstede and Bond 1988). Such a norm may constrain or at least affect the styles of communication across organizational hierarchies and employee participation, which in turn may have an impact on employee satisfaction. In exploring this dimension, the current paper also tests assumptions about the impact and efficacy of participative management styles in a non-Western context.

The contribution of this paper is twofold. First, it constitutes an early attempt to assess the impact of informal institutions on human resources management, which is poorly understood in both China and other transitional economies. Transitional economies are not only an ideal laboratory to assess the impact of formal institutional changes, but also of informal institutions on management and performance. As Peng (2000) postulates, for instance, China's social institutions remain central to understanding how firms operate and perform in this country. Second, it uses a unique large survey database collected in the retail sector in China. Research examining the influence of institutions in transitional economies tends to focus on the manufacturing sector (e.g. Lau et al. 2002; Law et al. 2003), with data often drawn solely from the surveys of managers (e.g. Law et al. 2003; Björkman et al. 2007). In China, Child and Tse (2001) claim that the entry of foreign ventures in the retail sector has engendered fundamental and far-reaching changes. However, with few exceptions (e.g. Gamble 2003, 2006) there is little empirical research that examines whether foreign retailers have adopted different HRM practices compared with indigenous firms and none that focuses on employee participation. Our data include both managers and shop-floor employees in indigenous and foreign-invested retailers.

In the following sections, we first outline the research context, followed by a review of the literature on institutions, and the potential impacts of the norm of respect for authority on employee participation and employee satisfaction with these practices. We then propose a number of hypotheses and test them using survey data, followed by a discussion of the findings. We draw out the implications for both management and theory before a brief discussion on future research and a conclusion.

### **Research context**

Since China's 'open door' and reform policy began in the late 1970s, substantial institutional changes have dismantled many barriers to modern business operations (Child 1994; Warner 1996; Child and Tse 2001; Warner 2008). For example, the introduction of labour contracts in the late 1980s and the 'three systems' reforms introduced in the early 1990s gave firms greater autonomy to hire, promote and even fire workers (Warner 1996). To a considerable extent, a labour market has been established through formal institutional changes. Since transition is a path-dependent transformation

(Child and Tse 2001), it is likely that both formal and informal institutions can inhibit firms from adopting institutional solutions which conventional economic theory would regard as optimal. In fact, informal institutions may lag behind. As North (1994) points out, developing norms of behaviour that will support and legitimize new formal rules is a lengthy, incremental process.

The retail sector is of great economic and social significance not only in the developed world but also in the developing countries. In the case of China, the overwhelming focus on its role as a global manufacturing base neglects the importance of the service sector in that country. According to the People's Daily (2004), the proportion of China's GDP accounted for by the service sector increased from 21.4% in 1978 to 33.7% in 2002. In the same period, the number of people employed in this sector rose from just 48.9 million to over 210 million. It is estimated that the contribution of this sector to China's GDP will be 50–60% in 2020. As a major component of the service sector, the retail industry is of considerable importance.

Since China's retail sector began to reopen to foreign involvement in 1992, it has witnessed an influx of multinational retailers eager to take part in its 'consumer revolution'. By 2005, the 18 largest foreign-invested chain stores in China already operated 4502 outlets (Ernst and Young 2006). According to the management consulting firm Kearney (2007), foreign retailers are fuelling the rapid growth of China's retail market. However, China's retail market is becoming saturated, limiting expansion opportunities for overseas retailers. Competition among retailers has also become increasingly fierce (Wang 2010). How to develop and retain competitive advantage is essential for the success of both foreign and domestic retailers.

### **Institutional constraints and employee participation**

#### ***Informal institution: the norm of respect for hierarchy***

According to North (1990), institutions include formal rules (laws, regulations) and informal constraints (customs, norms, cultures). Scott (1995) conceptualized institutions as composed of three pillars: regulative, cognitive and normative. Regulative institutions consist of regulative rule systems and enforcement mechanisms which centre on rule-setting, monitoring and sanctioning activities, with national laws, inspection routines, police and courts – along with organizational counterparts such as workplace rules, monitoring and incentives. Normative components introduce legitimate means to pursue valued ends. According to this institutional approach, the basis of regular behaviour stems from broad social agreement, which is often implicit, on what binding expectations apply to the members of the society. Cognitive institutions centre on shared conceptions of social reality and frames for meaning, which are taken-for-granted beliefs and values that are imposed on, or internalized by, social actors (DiMaggio and Powell 1983).

The traditional Chinese value of social order and customs in this aspect overlaps with both normative and cognitive institutions. This is evident in the teaching of Confucius, where the social system is defined not in terms of individuals or organizations, but in terms of dyadic ties between individuals, what Confucius called the principles of *wu-lun* ('five cardinal relations'). *Lun* is a system of social roles with distinct status differences, which stress the differentiation between individuals: prince and subject, father and son, husband and wife, elder brother and younger brother and friend and friend. For each dyadic *wu-lun* relationship, role prescriptions specify what should and should not be done by the actors (Baker 1979). All these relationships are intrinsically hierarchal, involving superior and subordinate except for friend to friend. Moreover, even the latter relationship is still

constructed on a hierarchical basis, with the senior member having a wide range of prerogatives and authority over the junior.

Confucian values that emphasize the importance of education, obedience to authority and interpersonal harmony are considered to still guide individual actions and attitudes in modern Chinese societies (Hofstede and Bond 1988), with values and norms 'both internalized and imposed by others' (Scott 1995, p. 40). The defining characteristics of Chinese traditionality are said to be respect for authority, fatalism, a general sense of powerless and obedience (Chen, Tsui and Zhong 2008). Using the concept of traditionality, Farh et al. (1997) suggest that traditional Taiwanese employees were less sensitive to injustice than were the less traditional employees. Therefore, the norm of respect for authority is still a key aspect of an informal institution in China, which is 'a pattern of collective action (social practice), justified by a corresponding norm' (Czarniawska 2010, p. 423). Such social institutions, which can act as 'internalized cognitive constraints on sense-making (taken-for-grantedness)' (Weber and Glynn 2006, p. 1640), then, have been built into the social structure of organizations (Farh et al. 1997). The national institutional embeddedness of firms can play an important role in shaping HRM practices (Gooderham et al. 1999).

Relatively, little attention has been devoted to the extent to which such informal institutions may constrain the implementation of HRM practices. This paper attempts to fill the gap by assessing how the norm of respect for authority might impact upon HRM in China. In particular, we focus on employees' responses to participative management style in state-owned enterprises (SOEs) and foreign-invested enterprises (FIEs) in the retail sector, respectively, and assess whether this practice affects employee satisfaction.

### ***Institutional constraints and employee participation***

Employee participation has been a key research theme within the context of strategic HRM since the 1990s (Huselid, Jackson and Schuler 1997; Parnell 2002) and in the literature on 'high involvement work practices', 'high commitment management', 'high performance practices' and 'best practice' HRM (e.g. Huselid 1995; Pfeffer 1998; Boxall and Purcell 2003). According to Huselid et al. (1997, p. 175), there are two HRM outcomes within a firm, namely strategic and technical HRM outcomes. Technical outcomes describe 'how well the HRM function performed activities traditionally associated with personnel management', whereas strategic outcomes describe 'how well the HRM function developed a firm's employees to support its business needs'. Employee participation takes different forms, for example, direct and indirect participation (Poole, Lansbury and Wailes 2001; Bryson 2004). Direct employee participation means that individual employees are involved in certain decisions, which have traditionally been taken by management alone. By contrast, indirect participation refers to the participation of employees collectively in decision making through reliance on union or non-union representatives to deal indirectly with management on their behalf (Poole et al. 2001). In Western firms, employees have been found to prefer participative management styles to autocratic styles (Marchington 2001), and some researchers suggest that direct participation can be more effective in eliciting managerial responsiveness than representative (i.e. collective or union) approaches (Bryson 2004). Furthermore, direct participation is more likely to be associated with higher levels of satisfaction or commitment (Cox, Zagelmeyer and Marchington 2006).

Chinese people are often reported to respect authority and to accept hierarchical structure (Kirkbride, Tang and Westwood 1991). As indicated above, the Confucian

values of obedience to authority and interpersonal harmony are still said to guide individual actions and attitudes in modern Chinese societies (Hofstede and Bond 1988). The contemporary relevance of Confucian ideas in China is evident in the way that the Chinese president, Hu Jintao, stressed the value of order, balance and a 'harmonious society' (Economist 2007, May 19). In a study comparing workers' participation in Germany and Taiwan, Han and Siu (2000) argue that 'Chinese culture' impedes employee voice in Taiwan because of a high degree of distance in terms of power relations, subordination and docility of the managed. Strong hierarchical and authoritarian traditions within Chinese society mean that managers are likely to feel threatened by participatory styles of management, and employees might not want to involve themselves in decision making for fear of having their views rejected (Hutchings 2005).

The extent of participation by employees has been low in most Chinese organizations (Huo and Von Glinow 1995). In his analysis of a survey of 1200 respondents from 120 factories in four cities, Tang (1993) found that a majority of Chinese workers would rather leave decision making to the firms' leadership and government departments. Similarly, foreign managers in early joint ventures often complained that Chinese workers were unlikely to exercise initiative to get things done (Holton 1990). According to Huo and Von Glinow (1995), there have been several attempts, championed by China's central government, to increase workers' participation in performance appraisal. However, they argue that such attempts have not been successful, because 'the system contradicts Chinese culture and tradition' (Huo and Von Glinow 1995, p. 10). More recently, in an effort to overcome Chinese employees' reluctance to question authority and encourage them to speak up when confronted with a bad idea, Kodak tested teams by suggesting a controversial idea and asking the team members for an opinion. Even though the team members knew it was a bad idea, none was prepared to state this out loud (Hulme 2006). In general, the norm of respect for authority has been found to constrain management practices and employee participation in particular. However, the extent to which it can influence state-owned and foreign-invested firms may be different. We turn to this point in the following section.

### **Ownership and employee participation**

There is evidence that SOEs have gradually adopted more Western style HRM practices (Zhu 2005). However, HRM practices in them are still less market-oriented compared with foreign-invested firms. According to Law et al. (2003), many of China's SOEs still operate like government agencies, with most HR tasks in them designed to ensure that decisions are politically rather than economically correct. While some SOEs may recognize the key role that HRM plays, they lack the ability to execute HRM policies as they tend to rely on HRM practices inherited or modified from their central planning past (Buck et al. 2003). Even in reformed SOEs, managers can be constrained by their traditional socialist ideology and practices from imposing drastic changes (Chiu 2006). This limits them from capitalizing on the benefits of human resource practices. In a case study of SOEs, employee involvement and interpersonal communications were found to be weak (Lewis 2003). Many employees reported a lack of communication between themselves and their managers and that managers were poor at interpersonal communication. As earlier research has shown (e.g. Child 1994), there was little upward or downward communication due to rigid status differences (Lewis 2003). Poor communication is consistent with and indicative of low employee involvement. Employees' low involvement and low initiative towards their work accounted for production errors in

the food processing plant studied by Glover and Siu (2000). Lewis (2003) blames the vertical authority chain in many SOEs for the situation in which employees accept little responsibility because all decisions have to be referred to the senior executive at the top of the enterprise.

By contrast, in MNCs, the diffusion of HRM has been more extensive than in SOEs (Goodall and Warner 1997; Zhu 2005; Warner 2008). Meanwhile, many MNCs have entered the 'strategic investor' phase; the HRM function is of high strategic importance for their operations in the PRC, and is predominantly controlled by the MNC partner (Braun and Warner 2002). Similarly, Björkman et al. (2007) find that the status of the MNC's subsidiary human resource department had a significant impact on the selection of HRM practices. Probably this contributed to the finding that the strategic role of HRM departments was positively related to firm financial performance in joint ventures, but not in the more traditional personnel departments in SOEs or collective enterprises (Law et al. 2003). It has been observed that the HRM practices of FIEs resemble those of the MNC parent country rather than those of local Chinese companies (Björkman and Lu 2001). Similarly, drawing on qualitative data, Walsh and Zhu (2007) suggest that the effects of parent company nationality and ownership form were most visible in the areas of remuneration, worker representation and aspects of employee selection. In a study on a UK-invested retailer in China, Gamble (2003, 2006) showed that the firm both sought and was able to transfer key aspects of its parent country HRM practices, including 'grass roots', a form of participative management practice to its stores in China. There were, though, also some significant divergences from parent country practices (Gamble and Huang 2009).

The differences mentioned above suggest relatively fewer institutional constraints on foreign-invested firms compared to SOEs in terms of their HRM practices. MNCs are more likely than SOEs to have employee participation practices and they might seek to transfer them to their subsidiaries in China. On the other hand, it may be argued that employees in SOEs are less willing to participate in communication and participative practices. In both cases, the outcome is the same, i.e. SOEs are likely to have a lower level of employee participation than foreign-invested firms.

Therefore, the following hypotheses are proposed:

- Hypothesis 1:* Foreign-invested retailers are significantly more likely to have a higher level of employee participation than state-owned retailers.
- Hypothesis 2:* Foreign-invested retailers are significantly less likely to be constrained by informal institutions than state-owned retailers.

### **Employee participation and satisfaction**

Relationships between employee and customer satisfaction have been well documented in the service literature. In the 'satisfaction mirror', Heskett, Sasser and Schlesinger (1997) propose that business success stems from employee satisfaction being 'reflected' upon customer satisfaction, whereby employees contribute directly to customers' evaluation of service quality. In retailing, the key defining aspect of sales work is that the job involves front-line workers actively stimulating demand by encouraging customers to purchase a good or service (Korczynski 2002, p. 104). Satisfied employees are more likely to stimulate and meet customer demand. Employee satisfaction is linked to customer satisfaction, which in turn is linked to profit (Heskett, Jones, Loveman, Sasser and Schlesinger 1994). Therefore, to increase customers' perceptions of service quality, managers must increase employees' self-efficacy and job satisfaction (Hartline and Ferrell

1996). Furthermore, better service and higher employee satisfaction frequently produce higher profits (Pfeffer 1998).

Analysis of the UK Workplace Employment Relations Survey data suggests that employee involvement and participation are positively associated with organizational commitment and job satisfaction (Cox et al. 2006). Gray and Laidlaw (2002) indicate the importance of supervisory and subordinate communication, particularly in relation to implementing workplace change in an Australian retail organization. According to Parsons and Broadbridge (2006), in UK charity shops, communication within organizations and employee participation in the decision-making process can help improve employee satisfaction. Communication between management and employees gives employees the opportunity to voice their wishes and concerns (Bryson 2004), and to participate in the decision-making process (Appelbaum, Bailey, Berg and Kalleberg 2000). By contrast, Strauss and McGrath (1994) suggest that employees who believe they are not well informed of workplace changes may have feelings of depersonalization with negative impacts on their customer service. Handel and Levine (2004) summarize findings from US research data, which show that the degree to which employees report that managers are effective at consulting employees has a big impact on the latter's job satisfaction.

The discussion above suggests that in firms with good communication and participation practices, employees are likely to be more satisfied. It can be argued that in foreign-invested retailers where communication and participation practices are well implemented, employee satisfaction level will be significantly higher than in SOEs. Therefore, the following hypotheses are proposed:

- Hypothesis 3:* Employees in foreign-invested retailers are likely to have a significantly higher level of employee satisfaction than those in state-owned retailers.
- Hypothesis 4a:* The norm of respect for authority can significantly predict employee satisfaction in foreign-invested retailers.
- Hypothesis 4b:* Employee participation can significantly improve employee satisfaction in foreign-invested retailers.
- Hypothesis 5a:* The norm of respect for authority is not associated with employee satisfaction in state-owned retailers.
- Hypothesis 5b:* Employee participation does not improve employee satisfaction in state-owned retailers

## Methods

### *Sample*

Our study is composed of a large-scale survey of employees from stores owned by UK and Japanese multinational retail firms in China and several Chinese SOE retailers located in different cities in China. A survey-based questionnaire was completed by a cross-section of employees between 2003 and 2006 at 22 stores in nine cities across China from Harbin in the Northeast, Guangzhou and Shenzhen in the South, Chengdu in the Southwest, Suzhou and Shanghai in the East, Fuzhou in the Southeast and Tianjin and Beijing in the North. The questionnaire is based partly upon the UK Department of Employment's Workplace Employment Relations Survey; as such it is a well-tested and robust research instrument. Specific questions, adapted where necessary for the Chinese context, and translations were discussed with several Chinese colleagues to ensure their comprehensibility and applicability. Additionally, both authors are Chinese



speakers, one being a native speaker. We also had the final Chinese text back translated to English by another bilingual research assistant to ensure translation equivalence (Mullen 1995).

Questionnaires were distributed on our behalf by the stores' HR departments. We took care to include both managers and employees at different levels of the firms' hierarchy in the study. Completed questionnaires were returned either via a mailbox or to a designated place in the department where respondents worked. The researchers then returned to the participating stores to collect the completed surveys. Respondents may be tempted to give the socially desirable response, rather than describe what they actually think, believe or do. To reduce the possibility of social desirability bias (Arnold and Feldman 1981), the questionnaire stated clearly that it was for research purposes only and that all responses would be kept confidential. There was no evidence that respondents were biased towards 'desired response' because of worries over confidentiality. In fact, some respondents expressed concern that top management would not hear their voice. 'Please report my discontent answers to the management!' commented one employee on his questionnaire.

Over 2100 questionnaires were distributed. Response rates were high at 86.3% since the firms' personnel departments sanctioned the survey. The sample for analysis in this paper consists of 1838 shop-floor employees. Respondents were asked personal background information regarding age, gender, education level, marital status and their position level. In total, 53.3% of respondents were SOE employees compared with 46.7% from FIEs. About two-thirds (64.3%) of the sample were aged below 28, with 58% of the respondents being single and 61% female. A quarter of respondents were in managerial positions, including supervisors and store managers. Most (97.5%) had education equivalent to senior high school or higher (see Table 1).

### **Measures**

The employee satisfaction measure consisted of six items. These aspects are similar to Bryson, Cappellari and Lucifora (2004) and Rose's (2005) measurement of job satisfaction. A composite measure of employee participation was created from measures of whether managers consulted employees in five separate aspects. Two sample items were 'Managers consult employees about future plans' and 'Managers consult employees about job arrangement'. The variables were measured with a 5-point Likert scale (1, very strongly disagree; 5, very strongly agree). The alpha coefficients of the scale were 0.72 and 0.82, respectively. The variable of respect for authority was measured by a two-item scale exploring employees' perception of their supervisors' practices, constrained by the norm of respect for authority. According to Berger and Luckmann (1966, p. 72), 'institutions posit that actions of type X will be performed by actors of type X'. The items are 'Superiors give employees the opportunity to raise suggestions about changes to work practice' and 'Superiors respond to employees' questions and opinion'. This variable was assessed with a 5-point Likert scale, with anchors ranging from 'strongly disagree' (5) to 'strongly agree' (1). The alpha coefficient was 0.86. The measures of the above scales all had Cronbach's alphas above 0.72, higher than the suggested reliability level of 0.70 (Nunnally 1978). Table 2 includes descriptive statistics of the above variables and correlation matrix among them.

### **Analysis and results**

We ran *t*-tests to test H1, H2 and H3. Table 3 reports the results. Employees at FIEs reported higher levels of participation and satisfaction but lower level of respect for authority than

Table 1. Demographic profile of respondents.

Variable (%)	SOE	FIE	Total
Respondents from	53.4	46.6	100
Age			
18–21-years old	8.0	13.0	10.1
22–27-years old	57.6	48.6	54.1
28–33-years old	24.9	27.1	26.0
34–39-years old	5.8	6.8	5.9
40-years old and over	3.7	4.2	3.9
Gender			
Male	35.0	47.2	38.8
Female	65.0	52.8	61.2
Marital status			
Single	57.0	60.8	58.3
Married	43.0	39.2	41.7
Education			
Junior and high school	2.3	3.0	2.5
Senior high school	48.1	69.0	58.3
College	29.8	20.5	25.9
University	18.6	7.3	12.7
Postgraduate	1.2	0.2	0.9
Positions*			
Ordinary employees	86.7	88.2	87.5
Managerial positions	13.3	11.8	12.5

Note:  $N = 1838$ . \*Ordinary employees = sales staff, checkout, clerical worker and sales advisor. Managerial positions = store manager, deputy store manager, department manager, supervisor and deputy supervisor.

those in SOEs. The differences are all significant ( $p = 0.000$  for both respect for authority and participation and 0.035 for satisfaction). Therefore, H1, H2 and H3 are supported.

We performed additional analyses after controlling for job position, distinguishing employees in managerial positions from ordinary employees such as sales assistants and cashiers. As shown in Table 3, for ordinary employees, participation practices together with employee satisfaction in FIEs were still significantly better. Employees in FIEs reported significantly less respect for authority than those in SOEs. However, employees in managerial positions in FIEs and SOEs did not report any difference in any of the three aspects ( $p = 0.331, 0.262$  and  $0.105$ , respectively).

Hierarchical multiple regression analysis was used to test our second set of hypotheses H4a, H4b, H5a and H5b. We regressed employee satisfaction on the respect for authority and participation scales, job rank and the demographic variables for FIE and SOE retailers separately. In the first step, we entered the demographic variables and then all the other variables. To check that no risk of multicollinearity was present, we conducted variance inflation factors (VIF) tests. The VIF for the variables in the model are between 1.069 and 1.547, which confirm that there is no problem of multicollinearity (Hair, Andersen, Tatham and Black 1998).

Table 4 shows the results of the regression analysis. All the four models were significant. Models 1 and 3 consider only demographic variables. Model 2 was highly significant, with an  $R^2$  of 0.241 and an adjusted  $R^2$  of 0.232. Model 4 had an  $R^2$  of 0.261 and an adjusted  $R^2$  of 0.249.  $R^2$  is the percentage of the dependent variable explained by the independent variables. Models 1 and 3 only explain 4.5 and 2.7% of variance, respectively. In Models 2 and 4, the independent variables explain about 24 and 26% of the variance, respectively. It is understandable that other factors, which are not included in the models, may contribute to

Table 2. Descriptive statistics and correlation matrix.

Variables	$\alpha$	Mean	SD	1	2	3	4	5	6	7	8	9
1. Respect for authority	0.85	2.1753	0.83446		-0.535***	-0.418***	0.061*	0.006	0.046	-0.0001	-0.137***	-0.147***
2. Participation	0.82	2.5762	0.69230			0.404***	-0.116***	0.042	-0.087***	0.018	0.160***	0.165***
3. Job satisfaction	0.72	3.1606	0.48672				-0.086***	0.073***	-0.070***	0.057*	0.146***	0.052*
4. Gender	NA	NA	NA					-0.005	-0.038	0.138***	-0.023	-0.124***
5. Age	NA	2.41	0.942						0.002	0.558***	0.232***	0.007
6. Education	NA	2.51	0.771							-0.101**	0.193**	-0.228**
7. Marital status	NA	NA	NA								0.147**	-0.039
8. Position level	NA	NA	NA									0.146**
9. Ownership	NA	NA	NA									

Note: N = 1838. \*\*Significant at the 0.001 level, \*Significant at the 0.05 level (all two-tailed tests). Variables coded as follows: ownership: 1 = joint venture, 0 = SOE; gender: 0 = male, 1 = female; education level: 1 = less than senior high school graduation, 2 = senior high or technical school graduation, 3 = college diploma, 4 = bachelor degree, 5 = masters degree or higher; marital status: 1 = married, 0 = other; position level: 1 = managerial, 0 = ordinary.

Table 3. T-test results: differences between SOE &amp; FIE in respect for authority, participation and satisfaction levels.

<i>Variable</i>	<i>Ownership</i>	<i>Mean</i>	<i>SD</i>	<i>Df</i>	<i>Sig. (2-tailed)</i>
Respect for authority	SOE	2.2952	0.88625	1299	0.000**
	FIE	2.0455	0.77304		
Participation	SOE	2.4735	0.71196	1761	0.000**
	FIE	2.7048	0.66065		
Satisfaction	SOE	3.1313	0.49496	1654	0.035*
	FIE	3.1821	0.48122		
Ordinary employee Respect for authority	SOE	2.4337	0.78728	850	0.000**
	FIE	2.0732	0.75375		
Ordinary employee participation	SOE	2.3616	0.70396	1187	0.000**
	FIE	2.6706	0.65517		
Ordinary employee satisfaction	SOE	3.0786	0.50148	1106	0.029*
	FIE	3.1426	0.473492		
Managerial employee Respect for authority	SOE	1.9773	0.76118	422	0.988
	FIE	1.9787	0.78943		
Managerial employee participation	SOE	2.7463	0.61096	411	0.262
	FIE	2.8200	0.63775		
Managerial employee satisfaction	SOE	3.2435	0.45670	402	0.105
	FIE	3.3221	0.45560		

\*\*Significant at 0.000 level, \*significant at 0.05 level.

employee satisfaction, for example, pay, which earlier research has shown to be the most important factor in the job-seeking process in China (Turban, Lau, Ngo, Chow and Si 2001). As expected, in foreign-invested retailers, both respect for authority (negatively) and participation scales significantly predict employee satisfaction ( $p = 0.000$ ). Contrary to expectations, in the state-owned retailers, both respect for authority and participation scales have a significant effect on satisfaction ( $p = 0.000$ ). As in FIE retailers, for employees in SOE retailers, respect for authority is negatively associated with employee satisfaction and participation is positively associated with employee satisfaction. Thus, both H4a and H4b are supported, but H5a and H5b are rejected.

Age, marital status and education variables are not significant predictors of employee satisfaction in either Model 2 or Model 4. Gender is a significant predictor of satisfaction in Model 4 but not in Model 2. In other words, there is significant difference between male and female employees in FIE retailers, but such a difference does not exist in SOE retailers. Job rank is also a significant predictor of employee satisfaction ( $p = 0.001$ ) for those working at FIE retailers with employees in managerial positions being significantly more satisfied than ordinary employees. However, job rank does not appear to predict employee satisfaction for those working at SOE retailers.

## Discussion

As predicted, foreign-invested retailers had significantly higher levels of both employee participation and satisfaction than SOE retailers. This indicates that FIEs employ more features of an 'HRM' type approach. This finding is in line with the available research (e.g. Goodall and Warner 1997; Law et al. 2003; Zhu 2005). On the other hand, employees in FIE retailers reported a significantly lower level of respect for authority.

SOEs and FIEs are under similar external pressures. The different outcomes might derive from the differential extent to which they are embedded in institutions and the

Table 4. Hierarchical multiple regression analysis results.

Independent variables	SOE			FIE		
	Standardized beta coefficients (t-statistics)			Standardized beta coefficients (t-statistics)		
	Model 1 (Demographic variables only)	Model 2	Model 3 (Demographic variables only)	Model 4	Model 3 (Demographic variables only)	Model 4
Age	0.089 (1.772)	0.052 (1.097)	0.079 (1.419)	0.077 (1.566)		
Gender	-0.111 (-2.548)***	-0.051 (-1.299)	-0.145 (-3.083)***	-0.083 (-2.002)*		
Marital	0.106 (2.042)*	0.063 (1.339)	-0.009 (-0.157)	-0.016 (-0.321)		
Education	-0.067 (-1.518)	-0.022 (-0.566)	-0.017 (-0.379)	-0.049 (-1.146)		
Position level		0.012 (0.274)		156 (3.571)***		
Respect for authority		-0.282 (6.154)***		-0.224(4.733)***		
Participation		0.235 (4.986)***		0.288 (6.021)***		
R	0.211	0.491	0.165	0.510		
R <sup>2</sup>	0.045	0.241	0.027	0.261		
Adj. R <sup>2</sup>	0.037	0.232	0.019	0.249		
F	6.001***	44.005***	3.230**	48.130***		

\*One-tail  $p < 0.05$ . \*\*One-tail  $p < 0.01$ . \*\*\*One-tail  $p < 0.001$ .

mechanisms they use to respond to these pressures. In response to institutional pressures, firms adopt appropriate practices in order to survive (Gooderham et al. 1999). Embedded institutional elements greatly influence HRM strategies and practices and lead to different organizational outcomes. Inherited from the historical context of the planned socialist economy and institutions like a hierarchical structure, SOEs are more deeply embedded in the traditional institutional environment.

Our further analysis suggested that significant differences in all these three aspects still existed between ordinary employees in FIE and SOE retailers. However, no difference was found in any of these three aspects for managerial employees between FIEs and SOEs. This suggests that employees in managerial positions in both FIE and SOE retailers had a similar perception of respect for authority and experienced similar HRM practices to encourage their participative activities and satisfaction. The institutional embeddedness of social structure, however, does not affect all employees equally. Instead, it influences employees at different levels to a different extent. For managerial employees in SOE retailers, who are in relatively higher positions compared with ordinary employees, their roles involve communication with those both above and below them and also participation in decision-making processes. In other words, as part of the implicit rules of the game, they expect to participate in these activities. Lau et al. (2002) argue that senior managers who are responsible for the firm's future face pressure from competition and changes initiated by the government. Similarly, employees in management positions in our study, either supervisors or store managers, need to function as leaders and as change champions to face the fierce competition in China's retail market. In other words, they already play a 'participative' role in management. Thus, no matter whether they work in a SOE or a FIE, managers respond similarly to respect for authority, participation and satisfaction.

The differences between ordinary employees in FIEs and SOEs in the three aspects indicate that HRM practices were implemented more thoroughly in the former. To some extent at least, MNCs can change the rules of the game (Peng 2000). Gamble (2003) found, for instance, that a UK-invested retailer was able to transfer a relatively flat organizational structure to China. Our field research suggests that SOE retailers are still likely to have more hierarchical layers between an ordinary employee and the store manager.

Interestingly, job position and gender in FIE retailers appear to predict employee satisfaction. In other words, there seems to be a significant gap between managerial and ordinary employees and between male and female employees with respect to their satisfaction level in FIEs. Managerial employees appeared to have higher levels of satisfaction than ordinary employees. Male employees seemed more satisfied than female employees. Managerial employees at FIE retailers may be offered better salary and career prospects, which make them more satisfied than ordinary employees. In contrast, in SOE retailers, managerial employees did not seem to have a significantly higher level of satisfaction. Perhaps, one can expect that many SOEs still rely on HRM practices inherited or modified from their central planning past (Buck et al. 2003), which may include egalitarian practices on both position and gender.

It may be that for the employees and managers surveyed, the questions on respect for authority and participation might mean different things according to their role and status in the company. For example, those at checkout level may relate to the managers in the next grade up when answering the question 'Managers consult employees about future plans'. Whereas for managerial respondents, it might just be the store manager. If a manager responds to the question, they might respond by reference to participation they have experienced with those above them or that they consider they 'give' to those below them.

The questionnaire-based survey employed is not able to explicate these aspects; this would require an in-depth qualitative study.

We had expected that respect for authority and participation were not associated with employee satisfaction in SOE retailers. However, our analysis suggests that respect for authority and participation can significantly predict employee satisfaction in both foreign-invested and state-owned retailers. This indicates that, just like their Western counterparts (Marchington 2001) and as suggested by previous more qualitatively based studies (e.g. Gamble 2003, 2006), Chinese employees in both SOE and FIE appreciate involvement initiatives and prefer a participative management style. Employees' positive response to participation in our analysis suggests that even deeply ingrained institutional features are malleable. As Gamble (2006) argues, the introduction and apparent acceptance by Chinese workers of practices developed in the UK, such as Grass Roots, indicates the potential malleability of cultural and organizational practices.

### **Implications for theory and management**

We find that employee participation is a significant predictor of employee satisfaction in both SOE and FIE retailers. It is evident that changes to management practice can have an impact on apparently deep-rooted cultural values, such as respect for authority. While national cultures undoubtedly 'generate predispositions towards certain behavioural patterns' (Child and Markóczy 1993, p. 622), this does not mean that individuals are static agents who respond in a homogeneous and predictable fashion. Individuals can be flexible and reactive and respond in unexpected ways. In the case of the norm of respect for authority, several dimensions may be involved. One is the expected behaviour of ordinary employees from their supervisors. It could also be the ideal behaviour that both parties would expect. In the latter case, a supervisor must also show his or her respect for the ordinary employee. In both cases, this does not necessarily exclude an employee's participation in and contribution to decision making, where the subordinates can still show respect for authority, that is, respect the final decision, which may be different from their own expectation. It would be interesting to investigate further what the norm of respect for authority means for both parties in the process of decision making.

Competition among retailers in China, including between foreign multinationals and domestically owned private and state enterprises, has become increasingly fierce (Wang 2010). How to develop and retain competitive advantage is essential for the success of both foreign and domestic retailers. Amongst other strategies, such as product price and store location, it is essential for front-line workers to actively stimulate demand and encourage customers to purchase a good or service (Korczyński 2002). Domestic- and foreign-invested retailers may have different approaches towards this challenge. Marchington (2001) argues that employee involvement became prominent in the West as an attempt by employers to find participative ways in which to manage employees. The available literature often suggests the difficulty of implementing such practices due to both formal and informal institutional constraints. Some researchers believe that 'Chinese culture' can impede employee voice because of, for example, a high degree of power distance between the managers and the managed (Han and Siu 2000). We find that there is significant difference between SOEs and FIEs in the levels of constraint of respect for authority, employee participation and satisfaction. Furthermore, we find that respect for authority together with participation can have an impact on employee satisfaction in both SOEs and FIEs. Our research confirms that less traditional approaches such as employee participation can significantly improve employee satisfaction. The results show that,

contrary to what some of the more cultural determinist literature suggests, ordinary Chinese employees respond well to participatory management regimes. Thus, 'Western' approaches to HRM can be a potential source of competitive advantage for FIEs over SOEs. Giving employees more responsibility and decision-making power gives them a sense of achievement and job satisfaction (Hulme 2006). In essence, we must understand the needs of the workers, that is, what is important to them (Gamble and Huang 2008).

The lack of difference between SOEs and FIEs in respect for authority and employee participation for managers is a warning signal to senior management in multinational firms. Competition in other HRM practices may be more serious for attracting and retaining managerial employees. SOEs may need to consider how to implement better communication and participation practices. For FIEs, the challenge may be how to fill the satisfaction gap between ordinary and managerial employees and between male and female employees.

### **Future research**

Institutions include both formal rules and informal constraints (North 1990). Peng (2003) suggests that institutions are typically conceptualized as the rules of the game in a society. Institutional transitions can be defined as fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect organizations as players. This paper explored only one type of informal institution, the norm of respect for authority. Social norms that constrain individuals and organizations in pursuit of their goals can be understood as informal institutions. Social norms such as reciprocity and 'face' are similarly considered as significant in the Chinese context. Further research is needed to analyse both how such informal institutions interrelate with formal institutions and what influence they exert on firm performance.

As we found above, like formal institutions, informal institutions such as the norm of respect for authority can constrain firms from achieving optimal organizational solutions in the Chinese context. Similarly, informal institutions can be important in other transitional economies, since transition is path-dependent (Child and Tse 2001). Future research comparing such potentially constraining informal institutions in transitional economies is needed.

This paper draws upon a survey-based questionnaire. Eisenhardt (1989, p. 538) argues that quantitative evidence can indicate relationships, which may not be salient to the researcher. However, reliance upon deductive and quantitative methods loses the richness of insights based on direct observation of workers and managers (Hodson 2005). Furthermore, qualitative data are useful for understanding the rationale or theory underlying relationships revealed in the quantitative data (Eisenhardt 1989). Future in-depth qualitative study can help to further advance theory in this area.

### **Conclusion**

As an early piece of research investigating the impact of informal institutions on human resource management, we specifically examined the norm of respect for authority and its influence on employee participation and satisfaction in foreign-invested and state-owned retailers in China. In China, ownership is usually seen as an important factor predicting, for instance, HRM practices and firm performance (Luo and Peng 1999). Some of our findings are in line with earlier research. For example, we found significant differences between SOEs and FIEs in terms of respect for authority, employee participation and satisfaction.



However, our analysis also indicates that contrary to the conventional assumption that Chinese employees are reluctant to engage with participatory styles of management (Tang 1993; Huo and Von Glinow 1995), employee participation is a significant predictor of employee satisfaction in both SOE and FIEs. Further, we found that the differences between SOEs and FIEs are more complex than is often assumed, i.e. there is not simply a clear distinction between the two different ownerships. The impact of ownership on participation and satisfaction is not simply causal and linear. It works in conjunction with other social institutions, like hierarchical structure and the social norm of respect for authority, within the organization at different levels. The norm of respect for authority can be more likely to constrain SOEs from implementing participation practices than FIEs. The institutional constraints seem stronger on ordinary employees in SOEs than in FIEs, while responses from employees at managerial positions in both SOEs and FIEs to participation and satisfaction appear similar. Lau et al. (2002) suggest that through creative organizational designs firms can reduce unfavourable institutional effects on their operations. The hierarchical barrier in SOE retailers seems more likely to impede ordinary employee participation. This may jeopardize their implementation of employee participation practices and in turn the achievement of employee satisfaction.

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