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Perceived Market/Government Influences, Politics and Justice in Chinese Organizations

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Abstract Although government intervention in economies has been widely debated lately, the extent to which government and market affect employees' perceptions about their organization remains inadequately discussed. We took the initial steps to create measures of perceived government influence and perceived market influence, and examined how they might be associated with organizational politics and justice in Chinese organizations. Using structural equation modeling, we found that perceived market influence and perceived government influence had opposing impacts on organizational justice mediated by perceived organizational politics. Additionally, results indicated that firm type (state-owned vs. private) did not affect organizational politics, nor did it moderate the relationships between perceived market/government influences and perceived organizational politics.

Keywords perceived government influence, perceived market influence,

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organizational politics, organizational justice

1 Introduction

China's transition from a central planned economy to a market-oriented economy is characterized by the coexistence of market forces and government forces in firms' external environment (Nee, 1992). Firms of different ownership types can be seen as operating on different equilibriums between two forces in China: the government and the market. Different combinations of the two forces pose different external controls on Chinese firms (Pfeffer and Salancik, 1978). The government has significant and varying degrees of influence on both State Owned Enterprises (SOEs) (Hua, Miesing and Li, 2006) and non-SOE business (Nee, 1989). Generally speaking, SOEs are exposed to greater government influence in getting access to capital, raw materials, labor and other resources, and have less performance pressure than private firms (Walder, 2000). Private businesses usually have less institutional protection from the government and less access to factor resources. As a result, they operate under more pressure from market competition. Similarly, hybrid organizations (Nee, 1992), Sino-foreign joint ventures (Child, 1994), and foreign companies operating in China are all subject to influences from both the market and the government to varying degrees. For example, evidence showed that the government could exert extensive influence on determining internal managerial activities (e.g., promotion patterns) across firms of different ownership types (Zhao and Zhou, 2004). The simultaneous influences from both markets and the government likely have a significant impact on employees' perceptions of the organization and, in turn, their work behaviors. However, it is surprising that very few studies have directly examined how market and government forces impact organizational reality in Chinese employees' eyes.

To fill this gap, we take a step forward and investigate how perceived organizational politics and organizational justice might be influenced by employees' perceived market and government influences. We propose that perceived market influence and perceived government influence have opposing effects on employees' organizational justice perceptions mediated by employees' perceived organizational politics. This study offers insights to corporations operating in China to better understand managerial behaviors in their own organizations, their business partner organizations, and competing firms. In addition, this study may also shed light on managerial behaviors in other countries where the massive escalation of government intervention in economies,

as a result of the recent worldwide economic turmoil, affects strategies, priorities, and business decisions in organizations. In the next section, we develop the theoretical model and lay out the hypotheses.

2 Theories and Hypotheses

2.1 Market, Bureaucracy and Accountability

Organizations create and manage their internal normative systems that in part reflect the organizational form of the firm (Victor and Cullen, 1988). Transaction cost economics (Williamson, 1975) suggests that the three prototypical transaction forms (i.e., markets, bureaucracies, and clans) embody different norms and practices in exchanges among individuals (Ouchi, 1980). Organizations and bureaucracies, which are subject to market and government forces to different degrees, such as private firms and SOEs, can be viewed as being associated with different transaction costs (Nee, 1992). As a result, the norms, rules and practices regarding human interactions in the two types of firms should also differ (Jones, 1983).

In addition, organizations are social systems that can be defined as common sets of shared expectations of behavior (Frink and Klimoski, 1998). Such shared expectations exert social pressure on individual to defend one's views and decisions that impact other organizational members because the individual's behaviors are evaluated by others based on such expectations (Tetlock, 1985). According to Frink and Klimoski (1998), accountability refers to "the perceived need to justify or defend a decision or action to some audience which has potential reward and sanction power, and such rewards and sanctions are perceived as contingent on accountability conditions" (p. 9). Because accountability depends on organizational members' perceptions of the organizational reality (Ammeter, Douglas, Ferris, and Goka, 2004), it follows that the actual type of the firm (private vs. SOEs) may not be as behaviorally meaningful as the perceived influences from markets and the government in shaping organizations' internal normative system and accountability web (Gelfand, Lim and Raver, 2004).

During China's profound social-economic reform and its move toward a more market-oriented economy, the Chinese government has intentionally retreated from many competitive economic sectors. As a result, market economic ideology coexists with socialist ideology and is gaining ground (Nee, 1992). Specifically, market-oriented values such as competitiveness, innovation and performance are

widely endorsed in Chinese firms and even in SOEs (Xin, Tsui, Wang, Zhang, and Chen, 2002). Since accountability can be viewed as the result of cultural influences in organizations (Gelfand et al., 2004), people who perceive more market influence will use a set of rules or ideologies different from those who perceive more government influence in generating socially acceptable expectations for behaviors. For example, in privatized SOEs, employees prefer differential rewards allocation rules that are more aligned with market competition and emphasis on productivity (He, Chen, and Zhang, 2004). It is unlikely that the change of the ownership per se is sufficient to lead to the employees' preference for productivity oriented allocation rules. Rather, it is the increased perception of market influence, driven by heightened demand for performance after privatization that holds people accountable to rules that facilitate productivity. Thus, the current study focuses on the perceptual consequences of perceived market/government influences on two aspects of employees' perceived organizational reality, perceived organizational politics and organizational justice.

2.2 Perceived Market/Government Influences and Organizational Justice

Markets and the government are often viewed as being associated with different sets of values, norms and practices (Lane, 1986) from which different accountability systems develop (Gelfand et al., 2004). *Perceived market influence* can be understood as the social control derived from the perceived values, norms, rules, and practices that are associated with market competition (e.g., customer orientation, competitiveness, and innovation). *Perceived government influence*, on the other hand, can be defined as the social control derived from the values, norms, rules and practices that result from government regulation or interference in business activities (e.g., respect for authority, economic and political stability, and personal connections to government officials). Research has shown that market competitive pressure positively affects Chinese SOEs market orientation, which in turn positively impacts on firm performance, whereas government control negatively affects SOEs market orientation (Li, Sun, and Liu, 2006). However, the current study looks beyond the strategic perspective and takes a behavioral approach in examining the influences from markets and the government. We define perceived market/government influences with broader scopes than those included in market orientation and government interference as defined by Li et al. (2006). We argue that the social control exerted by markets and the government is also

social-political process that can impact how employees perceive organizational reality and how they react to it.

Generally speaking, well functioning markets emphasize competition, customers, constant change, and vigilance in transactions among people. Values and norms driven by market competition often include economic rationality, competitiveness of product or service, customer satisfaction, and creativity, to name a few. Accountability as a result of such values and norms tends to be institutionalized through organizationally sanctioned mechanisms such as formal reporting relationships, performance monitoring and evaluation, contracts, and compensation systems, to ensure compliance (Frink and Klimoski, 2004). Through the behavioral regulation exerted by such accountabilities, over time organizational members are more likely to display productivity and competition oriented actions. Such modes of behaviors often include pursuit of high performance, responsiveness to customers, and vigilance in monitoring market changes. When performance is emphasized, justice and productivity tend to converge, and justice becomes managers' rational value (Meindl, 1989). As a result, when employees perceive high market influence, they are more likely to act in consistency with justice principles, and employees will likely perceive higher levels of fairness.

On the other hand, the government in China often controls important resources, executive positions, strategic goals (often including social stability), and compensation policies in order to control organizations (Child and Tsai, 2005; Peng and Luo, 2000; Tan and Peng, 2003). In such cases, an organization's survival is less hinged on its performance in the market place; rather, it is more dependent on getting resources and support from the government (Pfeffer and Salancik, 1978; Xin and Pearce, 1996). Organizations that are subject to strong government influence may claim to hold employees formally accountable to market oriented standards. However, employees' internal accountabilities or, their acceptance of such formal accountabilities (Ferris, Mitchell, Canavan, Frink and Hopper, 1995) are likely to be low due to the low performance pressure from the market competition. As a result, termination, promotion and compensation decisions are often made arbitrarily by powerful individuals and are likely to be viewed as unfair (e.g., Boeker, 1992; Pearce, Branyiczki, and Bakacsi, 1994). Therefore, the lack of a strong performance-oriented accountability systems due to the social control exerted by the government will likely spawn power abuse and inappropriate managerial behaviors (Mitchell, Hopper, Daniels, Falvy, and Ferris, 1998). As a result, organizational members may perceive less fairness.

Lane (1986) also noted that market-induced processes and government-

induced processes were associated with different justice criteria; and market-induced allocations tended to be perceived as fair and government-induced allocations were often viewed as unfair. Organizational justice is conceptualized and operationalized in the context of business organizations that emphasize productivity and performance (e.g., Colquitt, 2001; Greenberg, 1987), which are aligned with market-oriented systems rather than government controlled systems. Therefore, the more market influence the employees perceive, the more alignment they will see between allocation practices and organizational justice principles; thus employees will perceive higher organizational justice. The opposite can be said for the effect of perceived government influence on organizational justice. Therefore, we expect,

H1 Perceived market influence will be positively associated with organizational justice.

H2 Perceived government influence will be negatively associated with organizational justice.

2.3 Perceived Organizational Politics as Mediator of Perceived Market/Government Influences–Organizational Justice Relationship

Organizational and behavioral theorists have pointed out that organizations are political entities and organizational members are politicians (e.g., Mintzberg, 1985; Pfeffer, 1981). March (1988, p. 110) noted, “that a business firm is a political coalition and the executive in the firm is a political broker.” Ferris and Judge (1991) observed that “organizations are composed of varied individuals and coalitions with diverse interests, and decisions in organizations emerge from processes of interpersonal influence, typically involving the allocation of scarce resources” (p. 449). Definitions of organizational politics are varied, however, the common feature seems to involve “social influence attempts directed at those who can provide rewards that will help promote or protect the self-interests of the actor” (Cropanzano, Kacmar and Bozeman, 1995, p. 7). Based on this notion of organizational politics, three components were proposed for us to conceptualize the perceptions of organizational politics: *general political behavior*, *go along to get ahead*, and *pay and promotion policies* (Kacmar and Carlson, 1997).

The relationship between perceptions of organizational politics and organizational justice is complex. Researchers do not completely agree on how organizational politics and justice should be related, probably because of their different views on the nature of organizational politics. Some researchers (e.g.,

Ferris, Frink, Beehr and Gilmore, 1995) take a negative view of organizational politics and argue that organizational politics and organizational justice are the antithesis of one another. Indeed, Andrews and Kacmar (2001) reported a negative relationship between perceived organizational politics and procedural and distributive justice. Nonetheless, others view organizational politics as not necessarily detrimental, but indispensable and potentially beneficial for organizations in dealing with competing goals or objectives (e.g., Dipboye, 1995; Pfeffer, 1981; Witt, 1995). In this study, we take a negative view of organizational politics (Kacmar and Carlson, 1997), and expect perceived organizational politics to be negatively related to organizational justice.

From the accountability perspective, managers' perceived accountability is more of an informal and social political process (Hall, Blass, Ferris, and Massengale, 2004). For example, executives often intentionally distort performance evaluation ratings for political reasons because they may perceive that they are accountable for other goals that are more important than keeping performance appraisal as accurate as possible (Longenecker, Sims, and Gioia, 1987).

When market-oriented performance standards are made clear and used to hold employees accountable, there will be relatively less ambiguity and uncertainty associated with the evaluation of individual's contributions and how rewards should be allocated. As a result, relatively fewer employees' behaviors will be directed toward political behaviors such as tearing others down, being a yes-man, or trying to twist the pay and promotion policies because they become less viable to advance one's interest (Fandt and Ferris, 1990; Ferris, Fedor, and King, 1994). Consequently, employees' behaviors are more likely geared toward performance-oriented actions and organizational members will likely perceive less politics.

On the other hand, government can exert enormous control over organizations, thus the accountability systems are shifted away from market and performance standards. Consequently, values and norms that are not openly espoused by an organization, such as obedience, personal ties with superior, and risk-aversion tend to take shape where government influence is perceived to be strong because they are instrumental in advancing one's self-interest (Jones, 1983). For example, Nee (1992) observed that Chinese managers in SOEs were risk-averse professional bureaucrats and they highly valued their political reputation and their personal relationship with higher level bureaucrats. Thus, organizational members tend to display a mode of behavior that typically includes always agreeing with powerful superiors, ingratiating the boss, conforming to the status quo, and manipulating compensation and promotion decisions (e.g., Pearce et al.,

1994). Such behaviors are often imputed with self-interest intentions and perceived as political (Ferris et al., 1994; Kacmar and Carlson, 1997). Over time, the accountability systems imposed by perceived government control tend to spawn behaviors intended to advance individuals' self-interest often at the expense of other organizational members' and/or the organization's wellbeing. The social interactions that involve these self-interested members will likely lead to more perceptions of organizational politics (Kacmar and Carlson, 1997).

Similar to organizational justice, organizational politics usually involve allocation of valuable resources (Ferris and Judge, 1991). The allocation practices that produce perceptions of politics and those that give rise to perceptions of justice are to a great extent the same practices. As mentioned earlier, self-serving behaviors largely result from the lack of clear performance-oriented accountability and they are often perceived as political. To the extent that such self-serving behaviors are perceived as violating certain justice rules and causing harm, and the actors are held accountable for such behaviors, they will be perceived as unfair (Folger and Cropanzano, 2001). This suggests that the impact of perceived market and government influences on justice may be mediated by perceived organizational politics. Thus, the above text suggests,

H3 Perceived organizational politics will be negatively associated with organizational justice.

H4 Perceived organizational politics will mediate the relationship between perceived market influence and organizational justice.

H5 Perceived organizational politics will mediate the relationships between perceived government influence and organizational justice.

2.4 Firm Type as a Moderator of Perceived Market/Government Influence–Perceived Organizational Politics Relationship

As we have suggested, the accountability system toward market-driven standards and that toward government authority are largely in conflict. When one is dominant, the other tends to be subdued. For example, a number of studies have suggested that Chinese SOEs are entrenched in a culture that greatly inhibits the establishment of market-oriented accountability systems such as that toward quality (e.g., Anderson, Li, and Harrison, 2003; Jenner, Hebert, Appell, and Baack, 1998). Due to the social control imposed by the strong traditional culture in Chinese SOEs, the mitigating effect of perceived market influence on perceived organizational politics may be inhibited, whereas the exacerbating effect of perceived government influence on perceived politics tends to be strong.

As a result, although employees in Chinese SOEs may perceive varying degrees of market influence, their perceptions of organizational politics may not fluctuate considerably. But, their perceptions of politics may vary more significantly when the levels of perceived government influence change.

On the other hand, Chinese private firms are subject to fierce competition and enormous market influence (Walder, 2006). Thus, strong market-oriented accountability systems are likely established in private firms and the internal accountabilities (Ferris, Mitchell, Canavan, Frink, & Hopper, 1995) of their employees tend to be high. Therefore, the effect of perceived market influence on perceived politics is likely to be more pronounced in private firms than in SOEs. However, in private firms, employees' perceived accountability toward government authority tends to be subdued. Their perceptions of politics may not vary significantly along with different levels of perceived government influence. Thus, we expect the following moderated relationships.

H6 Firm type will moderate the relationship between perceived market influence and perceived organizational politics. The relationship will be stronger in private firms than in SOEs.

H7 Firm type will moderate the relationship between perceived government influence and perceived organizational politics. The relationship will be stronger in SOEs than in private firms.

3 Measure Development and Pilot Study

Following the guidelines of scale development procedure proposed by Hinkin (1998), we generated a 4-item measure of perceived market influence (PMI) based on our conceptualization of this construct and relevant literature (e.g., Lane, 1986; Li et al., 2006; Walder, 2000, 2006). The items are: (1) The market in which my company is involved is very competitive; (2) Customers' needs significantly influence business decisions in my company; (3) My company needs to be very responsive to the changes in the market; and (4) My company needs to vigilantly monitor the changes in the market.

We also developed a 4-item measure of perceived government influence (PGI) on the basis of our conceptualization of this construct and relevant literature (e.g., Child, 2000; Child and Tsai, 2005; Peng and Luo, 2000; Tan and Peng, 2003; Walder, 1986, 2000) and the items include: (1) The relationship between the government and my company is very important; (2) My company's goals need to be aligned with the government's goals; (3) Changes in the positions of government officials have significant impact on my company; and (4) Employee

compensation in my company is significantly influenced by the government's policies.

We conducted a pilot study to assess the psychometric characteristics of our measures using a Chinese sample. Subjects were 122 executive MBA students enrolled in a large public university located at a major metropolitan area in North China. The mean age of the participants was 32.5 years; 67% were male; the mean organizational tenure was 6.2 years; 87% have received at least 4 years of college education; and all held managerial positions. The items that measure PMI, PGI, perceived organizational politics (POPS) (Kacmar and Carlson, 1997) and organizational justice (OJ) (Colquitt, 2001) were included in the survey. All the measures were translated into Chinese and back-translated into English to ensure the meaning of the Chinese version is equivalent to that of the English version (Brislin, 1980). Subjects rated the items on a 5-point Likert scale with 1 = "strongly disagree" and 5 = "strongly agree."

Exploratory Factor Analysis using principle axis factoring was conducted to examine the factor structure of the eight items that measure PMI and PGI. A two-factor solution was produced with the four items developed for PMI and the four items for PGI clearly loaded on different factors. The total variance explained was 71% and all factor loadings exceeded 0.78. The internal consistency (Cronbach's α) for PMI was 0.89 and that for PGI was 0.86.

Next, we conducted Confirmatory Factor Analysis (CFA) using Amos (Arbuckle and Wothke, 1999) to assess the validity of the translated measures of POPS and OJ. The POPS measure subsumes three dimensions, general political behavior (sample item: People in this organization attempt to build themselves by tearing others down), go along to get ahead (sample item: Agreeing with powerful others is the best alternative in this organization), and pay and promotion policies (sample item: Promotions around here are not valued much because how they are determined is so political). The 15-item model did not fit data well and all reverse coded items had large MI and Par Change values. Model fit improved significantly after the reverse coded items were excluded from analysis. One item under go along to get ahead and one item under pay and promotion policies appeared to cross load on other dimensions of POPS and had large MI and Par Change values. After these two items were removed, the 3-factor POPS model showed good fit ($\chi^2/df = 2.10$, CFI = 0.94, IFI = 0.95, RMSEA = 0.090). In this model, two items measure general political behavior, four items measure go along to get ahead, and three items measure pay and promotion policies. A second-order CFA showed that the three dimensions formed an overall higher order factor ($\chi^2/df = 2.01$, CFI = 0.95, IFI = 0.95,

RMSEA = 0.090). The competing one-factor model did not fit our data ($\chi^2/df = 6.86$, CFI = 0.66, IFI = 0.67, RMSEA = 0.220). Cronbach's α was calculated for each of the three dimensions and the values were 0.65, 0.82, and 0.85 respectively.

The measure of OJ includes 4 dimensions. The sample items in the dimensions are, "Have the procedures used to arrive at your outcome been free of bias" (procedural justice); "Is your outcome justified, given your performance" (distributive justice); "Has your supervisor treated you with respect" (interpersonal justice); and "Has your supervisor explained the procedures thoroughly" (informational justice). The 20-item model did not fit our data well. After one procedural justice item and one informational justice item were excluded from analyses, the four-factor model showed an acceptable fit ($\chi^2/df = 1.97$, CFI = 0.92, IFI = 0.92, RMSEA = 0.090). In addition, the dimensions formed an overall higher order factor ($\chi^2/df = 1.95$, CFI = 0.92, IFI = 0.92, RMSEA = 0.089). The competing one-factor model did not fit our data well ($\chi^2/df = 4.99$, CFI = 0.64, IFI = 0.64, RMSEA = 0.182). The Cronbach's α for the four dimensions were as follows: procedural justice (0.80), distributive justice (0.90), interpersonal justice (0.89), and informational justice (0.86).

Then, we conducted a CFA including all the constructs used in this study. The three dimensions of POPS were treated as its indicators and we used the four dimensions of organizational justice as its indicators. The four-factor model (PMI, PGI, POPS, and OJ) fit data reasonably well ($\chi^2/df = 1.97$, CFI = 0.91, IFI = 0.91, RMSEA = 0.089).

4 Main Study: Method

4.1 Sample and Procedure

Participants in this study were business managers currently enrolled in the Executive MBA program in a large university in a major city of Southwest China. Two hundred-eighty questionnaires were distributed among the EMBA students and participation was voluntary. In total, 226 questionnaires were returned, resulting in a response rate of 81%. Twelve incomplete questionnaires were excluded and the final sample size was 214. All respondents held managerial positions. Average age of the participants was 34; average organizational tenure was 7.6 years; 72% were male; 88% had received at least 4-year undergraduate college education; and 113 respondents were from SOEs, while 101 were from private companies. Overall, participants came from more than 25 industries.

4.2 Measures

All measurement items included in the survey questionnaire were scored on a 5-point Likert scale anchored by 1 = “strongly disagree” and 5 = “strongly agree.” The English version of the questionnaire was developed first, then was translated into Chinese using translation-back-translation techniques to ensure the equivalency of meaning (Brislin, 1980).

Perceived Market Influence (PMI). We used the 4-item scale validated in the pilot study to measure this construct. Internal consistency (Cronbach’s α) of this scale was 0.86.

Perceived Government Influence (PGI). The 4-item measure tested in the pilot study was used to measure PGI. Internal consistency of this measure was 0.85.

Perceived Organizational Politics (POPS). The measure developed by Kacmar and Carlson (1997) was modified and validated in the pilot study, resulting in a 9-item measure of POPS. Cronbach’s α for the three dimensions of the scale were: General Political Behavior (0.72), Go Along to Get Ahead (0.83) and Pay and Promotion Policies (0.83).

Organizational Justice (OJ). We used Colquitt’s (2001) measure as modified in the pilot study. The reliabilities for each of the dimensions were: Procedural Justice (0.78), Distributive Justice (0.90), Interpersonal Justice (0.90), and Informational Justice (0.88).

Firm Type. In order to investigate the extent to which firm type affects the hypothesized relationships, it was coded as a dummy variable, with *SOE* = 0 and private firm = 1.

5 Analysis and Result

Table 1 presents means, standard deviations, correlations and reliabilities for the focal variables of this study. We took a two-step approach (Anderson and

Table 1 Means, Standard Deviation, Correlations and Reliabilities

Variables	Mean	S. D.	1	2	3	4
1. Perceived market influence	3.64	0.98	0.86			
2. Perceived government influence	3.14	0.83	-0.13 [†]	0.85		
3. Perceived organizational politics	2.51	0.71	-0.14 [*]	0.26 ^{**}	0.84	
4. Organizational justice	3.07	0.70	0.15 [*]	-0.16 [*]	-0.41 ^{**}	0.93

Note: $N = 214$; * indicates $p < 0.05$; ** indicates $p < 0.01$; [†] indicates $p < 0.10$; Cronbach’s α are on the diagonal.

Gerbing, 1988) and used structural equation modeling with Amos 7.0 (Arbuckle and Wothke, 1999) to analyze the data and test the hypotheses.

5.1 Confirmatory Factor Analysis

We conducted CFA analyses to examine the validity of the hypothesized 4-factor model (Table 2). In the CFA analyses, the three dimensions of POPS were treated as its indicators and we used the four dimensions of organizational justice as its indicators. The baseline 4-factor model (PMI, PGI, POPS, and OJ) fit data well. Alternative CFA models were tested and compared against the 4-factor model. Model 1 included three factors with PMI and PGI merged into one factor; model 2 involved a factor formed by POPS and OJ; model 3 was a 2-factor model in which PMI and PGI merged into one factor and POPS and OJ merged into another factor; in model 4, PMI and OJ formed one factor and PGI and POPS formed the other. We also tested model 5 in which all items were forced to load on a single factor. Table 2 shows that results of CFA analyses supported the validity of the 4-factor measurement model.

Table 2 Comparison of Measurement Models

Model	Factors	χ^2	<i>df</i>	$\Delta\chi^2$	CFI	IFI	RMSEA
Baseline Model	Four factors	154.27	84		0.947	0.948	0.063
Model 1	Three factors: PMI and PGI were combined into one factor.	489.93	87	335.66***	0.697	0.701	0.147
Model 2	Three factors: POPS and OJ were combined into one factor.	235.84	87	81.57***	0.888	0.889	0.090
Model 3	Two factors: PMI and PGI were combined into one factor; POPS and OJ merged into one factor.	566.93	89	412.66***	0.640	0.644	0.159
Model 4	Two factors: PMI and OJ merged into one factor; PGI and POPS merged into one factor.	612.47	89	458.20***	0.606	0.610	0.166
Model 5	One factor	857.88	90	703.61***	0.368	0.375	0.200

Note: *** indicates $p < 0.001$; PMI = perceived market influence; PGI = perceived government influence; POPS = perceived organizational politics; OJ = organizational justice.

5.2 Hypothesis Tests

Table 1 shows that PMI and OJ were positively correlated ($r = 0.15$, $p < 0.05$) whereas PGI and OJ were negatively correlated ($r = -0.16$, $p < 0.05$), supporting

H1 and H2. Consistent with H3, POPS and OJ were negatively correlated ($r = -0.41, p < 0.01$). To test H4 and H5, a series of nested structural models were tested and Table 3 shows the results. First, we tested our hypothesized mediation model (M1) and results showed a good fit. In the second model (M2) we added a direct path from PMI to OJ. Model 3 was identical to model 1 except that the direct path from PGI to OJ was added. In model 4, we added the direct paths from both PMI and PGI to OJ into M1. Fit indices showed that the first four models fitted data almost equally well but M1 was the most parsimonious. Thus, we concluded that our hypothesized model best fit the data and POPS fully mediated the relationships between PMI/PGI and OJ. Thus, H5 and H6 were supported.

In order to control for the influence of firm type on perceived organizational politics, we added firm type into the mediation model as a control variable (M5). A path was added from firm type to POPS. Although the model showed an acceptable fit, the path between firm type and perceived organizational politics was not significant ($-0.04, n.s.$). All the other path coefficients in the model remained significant and their magnitudes barely changed.

To ensure that our findings were not seriously affected by common method bias, we added to the mediation model a common method factor (M6), and each of the items in the mediation model was allowed to double load onto its substantive latent variable and the common method factor (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). If the path coefficients in our mediation model remain significant, then the relationships found are robust to common method bias. Results suggested that this model fitted data well (Table 3). All standardized path coefficients were significant and barely changed. Therefore, we conclude that common method bias did not undermine the validity of our findings. Fig. 1 presents the final structural model.

Next we tested H6 and H7 using multi-group analysis in which our theoretical model was tested across two groups of subjects. One group consists of all the subjects from SOEs ($N = 113$) and the other group comprises those from private firms ($N = 101$). First, all the path coefficients in the mediation model were allowed to be freely estimated across the two groups (M7). Fit indices suggested that the model simultaneously fitted the two groups well. Next, we constrained the path between PMI and POPS and that between PGI and POPS to be equal across the two groups (M8). Then fit indices of M7 and M8 were compared to determine whether the null hypothesis (i.e., the strengths of the constrained relationships in the theoretical model are invariant across the two groups) was supported. If the fit indices of M8 deteriorate significantly, the constrained

Table 3 Comparison of Structural Equation Models

Models and Structure	χ^2	df	$\Delta\chi^2$	CFI	IFI	RMSEA
M1: PMI + PGI → POPS → OJ	140.78	86		0.955	0.956	0.055
M2: PMI + PGI → POPS → OJ and PMI → OJ	140.00	85	0.78	0.955	0.955	0.055
M3: PMI + PGI → POPS → OJ and PGI → OJ	140.57	85	0.21	0.954	0.955	0.055
M4: PMI + PGI → POPS → OJ and PMI + PGI → OJ	139.85	84	0.93	0.954	0.955	0.056
M5: M1 and firm type → POPS	218.68	100		0.907	0.909	0.075
M6: M1 + common method factor	115.34	74		0.967	0.968	0.051
M7: all paths in M1 freely estimated in SOE and private groups	259.43	172		0.926	0.928	0.049
M8: PMI→POPS & PGI→POPS in M1 set to be equal across SOE and private groups	262.60	174	3.17	0.925	0.927	0.049

Note: PMI = perceived market influence; PGI = perceived government influence; POPS = perceived organizational politics; OJ = organizational justice.

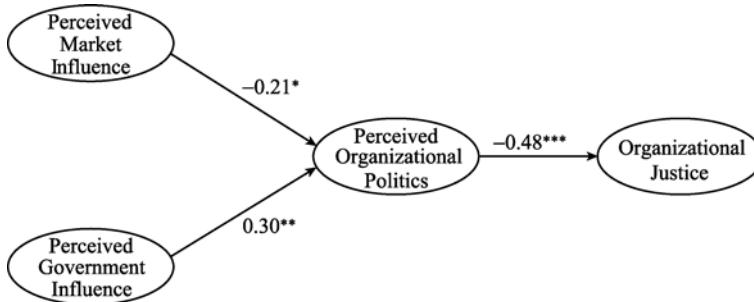


Fig. 1 Final Structural Model

Note: * indicates $p < 0.05$; ** indicates $p < 0.01$; *** indicates $p < 0.001$.

relationships are unlikely to be equal across the two groups. We found that the fit of the constrained model (M8) barely changed (Table 3) when it was compared against the freely estimated model (M7). Therefore, it is very likely that our hypothesized relationships do not vary across SOEs and private firms. Hypotheses 6 and 7 were not supported.

6 Discussion

Scant attention has been paid to how markets and the government impact on employees’ perceived organizational reality. This study investigates how the perceived influences from markets and the government may be related to employees’ perceptions of two important aspects of organizational reality: perceived organizational politics and organizational justice. We developed

measures for perceived market influence and perceived government influence, and both showed strong evidence of construct validity. As expected, perceived organizational politics mediates the relationships between perceived market/government influences and organizational justice.

The findings of the current study extend our understanding of management in Chinese organizations. First, our results suggest that markets and the government are predisposed to have opposing effects on Chinese employees' perceived organizational justice. Perceived market influence appears to have a positive effect, whereas perceived government influence seems to have a negative effect on organizational justice.

In addition, our model suggests that the extent to which the two perceived external forces affect employees' fairness perceptions hinges on the extent to which they affect employees' perceptions of politics. Given that organizational politics is a fact in all organizations (Mintzberg, 1985), our results suggest that the indirect effect of perceived market/government influences on employees' justice perceptions may exist in all organizations. Indeed, when firm type (SOE vs. private) is controlled, the hypothesized relationships did not change.

Interestingly, contrary to hypotheses 6 and 7, the actual control from government measured as firm type (SOE vs. private) seems to have little impact on the relationships between perceived market/government influences and perceived organizational politics. In other words, the strengths of the relationships between perceived market/government influences and employees' perceptions of politics remain similar across SOEs and private firms. This is probably because recently, significant reform has taken place in Chinese SOEs and considerable autonomy has been afforded to SOEs (Child, 2000). Increasingly, SOEs are subject to significant market forces, which may lead to higher perceived market influence. At the same time, the government continues to exert significant influence on private firms. As a result, the levels of perceived market and perceived government influences may have become sufficiently similar in each type of firms so that neither of them overwhelms the other. Thus how they affect perceived organizational politics may also become similar across SOEs and private firms.

Furthermore, our results indicate that SOEs are not necessarily stuck with high perceived organizational politics and low fairness. If SOEs can manage to keep perceived government influence in check and at the same time make the perceived market influence highly salient to employees, then employees can perceive a lower level of organizational politics and more organizational justice. A widely known Chinese example may be Haier, originally a collective (Nee,

1992) company owned by the municipal government of Qingdao. Haier's CEO Ruimin Zhang once asked employees to smash 76 defective refrigerators with sledgehammers. In so doing, he established the rule of quality, a market competition oriented ideology, as a vital principle to which all his employees were held accountable. Such market-oriented accountability may have indirectly led to a relatively higher level of fairness, which was an integral part of Haier's culture and success (Yi & Ye, 2003). Other anecdotes (e.g., Jenner et al., 1998) also suggested that holding employees accountable to market-oriented values such as quality in Chinese SOEs might help transform the organizational culture.

The current research can serve as the first step in understanding the role of perceived government and market influences in affecting employees' perceptions of their organization. Future studies may need to investigate what leadership approaches are more effective in managing perceived market/government influences in Chinese organizations. Another potentially fruitful direction might be to examine what other mechanisms can explain how perceived market/government influences affect employees' behaviors and attitudes. Also, future research may need to test whether the theoretical relationships in our model hold in other cultural contexts. It would also be interesting to examine how the shared perceptions of market and government influences as group level climate variables affect individual behaviors.

7 Limitation

The limitations of the present research should be noted. First, this is cross-sectional survey research. The causal relationships suggested in the structural model (Fig. 1) should be interpreted with caution. It is possible that other models may also adequately explain the data. Second, common method bias could be a concern regarding the validity of our findings. However, given the variables of theoretical interest are all perceptions from the same person, we felt that using the same source is not unreasonable. In addition, we employed Harman's single-factor test (Podsakoff et al., 2003) and the CFA results showed that the hypothesized 4-factor model fit data significantly better than the single factor model. We also controlled for the common method factor in testing our structural model and results indicated that common method bias did not undermine our findings. It should be noted that some researchers (e.g., Crampton and Wagner, 1994; Spector, 2006) argued that method-driven bias was not as severe as generally claimed. Thus we feel confident that common method bias is not a serious concern in our study. Third, perceived market influence and

perceived government influence may be multifaceted and may need to be further validated in other settings. However, measure development is often an iterative process. As the initial step, in the current study, the measures for these two constructs showed good validity and parsimony.

8 Conclusion

In order to extend our understanding of the implications of market and government forces on employees' perceptions, we conceptualized and developed two new constructs (i.e., perceived market influence and perceived government influence) in light of the normative social control that is exerted by the market and the government. We found that the indirect effects of perceived market/government influences on organizational justice were fully mediated by perceived organizational politics. Our findings suggest that although it can be argued that Chinese SOEs are subject to more government interferences and Chinese private firms are subject to more market forces, perceived market influence, and perceived government influence appear to affect how employees perceive organizational politics and justice in a similar fashion in SOEs and private firms. In fact, it is the perceived market/government influences, rather than firm type, that seem to affect employees' perceived organizational politics and in turn, organizational justice. Business leaders in both SOEs and private firms in China seem to be in a paradoxical situation in that their firms are subject to relatively strong influence from the government and yet they may have to actively shape the perceived organizational accountability systems toward market-oriented directions so that employees may see less politics in the organization. This could be important to the leaders because employees are likely to see the organization as less fair when they see it as more political, which then may lead to potential undesirable work behaviors. The effectiveness of business leaders in managing employees' perceived market influence and perceived government influence can be of critical importance for building a fair workplace in Chinese organizations.

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