

**A Theoretical and Empirical Exploration of the Adoption of  
Employee Empowerment Practices: Evidence from  
Multinational Subsidiaries in China**

**Yishuai Yin**

Department of Marketing and Management

Faculty of Business and Economics

Macquarie University

August 2017

This thesis is presented for the degree of Doctor of Philosophy

## TABLE OF CONTENTS

<b>Abstract .....</b>	<b>iii</b>
<b>Statement of Candidate .....</b>	<b>v</b>
<b>Acknowledgements .....</b>	<b>vi</b>
<b>Chapter 1. Introduction .....</b>	<b>1</b>
<i>Background.....</i>	<i>2</i>
<i>Aims and Significance of the Research.....</i>	<i>6</i>
<i>A Schematic Overview of the Thesis .....</i>	<i>10</i>
<i>A Summary of Chapters .....</i>	<i>12</i>
<i>Contributions .....</i>	<i>16</i>
<i>Concluding Remarks.....</i>	<i>21</i>
<i>References.....</i>	<i>24</i>
<b>Chapter 2. Why firms adopt empowerment practices and how such practices affect firm performance? A theoretical extension .....</b>	<b>35</b>
<i>Abstract.....</i>	<i>36</i>
<i>Introduction .....</i>	<i>37</i>
<i>Literature Review.....</i>	<i>39</i>
<i>Empowerment Practices as a Mode of Work Organization .....</i>	<i>45</i>
<i>Theory and Proposition Development .....</i>	<i>48</i>
<i>Discussion and Conclusion.....</i>	<i>62</i>
<i>References.....</i>	<i>67</i>
<b>Chapter 3. A transaction cost analysis of the determinants and outcomes of empowerment practices: Evidence from multinational subsidiaries in China .....</b>	<b>77</b>
<i>Abstract.....</i>	<i>78</i>
<i>Introduction .....</i>	<i>79</i>
<i>A Critical Review of Current Research on Empowerment Practices .....</i>	<i>80</i>
<i>Theory and Hypotheses.....</i>	<i>83</i>
<i>Method .....</i>	<i>91</i>

<i>Results</i> .....	97
<i>Discussion and Conclusion</i> .....	103
<i>References</i> .....	108
<b>Chapter 4. Employee empowerment practices and knowledge transfer: The role of individual-level mechanisms</b> .....	<b>115</b>
<i>Abstract</i> .....	116
<i>Introduction</i> .....	117
<i>Theoretical Background and Hypotheses</i> .....	119
<i>Method</i> .....	130
<i>Results</i> .....	136
<i>Discussion and Conclusion</i> .....	141
<i>References</i> .....	146
<b>Chapter 5. What determines the adoption of employee empowerment practices by MNE subsidiaries in China? An institutional perspective</b> .....	<b>155</b>
<i>Abstract</i> .....	156
<i>Introduction</i> .....	157
<i>Theory and Hypotheses</i> .....	159
<i>Method</i> .....	169
<i>Results</i> .....	172
<i>Discussion and Conclusion</i> .....	176
<i>References</i> .....	185
<b>Appendix</b> .....	<b>194</b>

## **Abstract**

For many years, employee empowerment practices have been of major interest to both management scholars and practitioners. A large body of literature suggests that employee empowerment practices positively relate to organizational performance. However, insufficient is known about the factors that determine the adoption of empowerment practices by firms. Furthermore, most of the research on employee empowerment practices has been conducted in Western countries. To better understand this phenomenon, this thesis investigates the antecedents and outcomes of employee empowerment practices in MNE subsidiaries operating in China.

Data were collected from MNE subsidiaries operating in China and analyses were based on three conceptual models. Drawing on transaction cost economics (TCE), the first model proposed that two employee-employer exchange characteristics, performance ambiguity and human asset specificity, independently and interactively determine the degree of empowerment practices adopted by firms. It further examined the interactive effect of the employee-employer exchange characteristics and empowerment practices on organizational performance. Based on knowledge-based view (KBV) of the firm, the second model examined how employee empowerment practices influence knowledge transfer through individual level mechanisms with regard to employee perceived empowerment practices, psychological empowerment, knowledge sharing. Underpinned by institutional theory, the last model investigated how the informal institution and the subsidiaries' characteristics affect the degree of empowerment practices adopted in the MNE subsidiaries in China. Results revealed that all the three models were at least partially supported, suggesting each of the three models provided valuable insights to explain the adoption of employee empowerment practices.

Overall, this thesis contributes to employee empowerment practices literature by shedding light on the underlying factors that influence the adoption of different degree of empowerment practices. This thesis goes beyond the current literature by initiating a new TCE perspective of employee empowerment practices and illuminating the economic nature of employee empowerment practices. It also extends our knowledge on the individual-level mechanism of how empowerment practices contribute to knowledge-based competitive advantage. Finally, it refines the understanding of contextual factors that specifically influence employee empowerment practices in MNE subsidiaries in China.

## **Statement of Candidate**

I certify that the work in this thesis entitled “Antecedents and Outcomes of Employee Empowerment Practices: A Theoretical Extension and Empirical Evidence from Multinational Enterprises Subsidiaries in China” has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree to any other university or institution other than Macquarie University.

I also certify that the thesis is an original piece of research and it has been written by me. Any help and assistance that I have received in my research work and the preparation of the thesis itself have been appropriately acknowledged. The additional authors included in earlier versions of Chapters 2, 3, 4 and 5, were involved in the research at a supervisory level.

In addition, I certify that all information sources and literature used are indicated in the thesis.

The research presented in this thesis was approved by Macquarie University Ethics Review Committee, reference number: 5201500518, on the 7th of February, 2015.

Signature:

Yishuai Yin (Student ID: 42778794)

August 2017

## **Acknowledgements**

This thesis would not have been made possible without many people who have inspired, supported, mentored, motivated and accompanied me through my PhD journey.

First and foremost, I owe my deepest gratitude to my two supervisors, Associate Professor Yue Wang and Dr. Candy Ying Lu. I thank you for your tremendous and invaluable guidance, mentoring and supervision. Without your encouragement, patience, and support, this thesis could hardly have been completed. I am extremely grateful for your boundless knowledge and sharp insights that helped me at various stages of my research. At the same time, you allowed me the autonomy and freedom to explore my research interest. It has really been a great honour to be your PhD student.

I would also like to express my special appreciation and thanks to my colleagues at the Department of Marketing and Management and Higher Degree Research Office. Firstly, to Dr. Nikola Balnave and Dr. Alison Barnes for their support and advice in the early stages of my research. To Professor Lorne Cummings for his assistance and support throughout my PhD study. To Associate Professor Cynthia Webster and Dr. Erik Lundmark for providing valuable suggestions to my research protocol. To Associate Professor Hume Winzar for his advice on research methods. To Dr. Juliet Lum and Dr. Florance Ma for their training on academic writing. And to Agnieszka Baginska, Lin Bai, Mel Hubbard and other staff from HDRO for their kind help during my study.

I am thankful to my fellow PhD candidates for sharing their knowledge and experiences -Jianhui Xu, Zhou Jiang, Junjun Cheng, Colin Zhang, Daniel Ding, Chu Wang,

Shujuan Xiao, Bella Zheng, Xianling Zhang, Sisi Yang, Qu He, Shuaijun Guo, Sammy Ying, Jun Xue, Yang Wang, Tao Huang, Jiping Li and Huahua Liao.

I owe a special thanks to my family: my father, mother, mother-in-law, and father-in-law for all of the sacrifices that you have made on my behalf. I am forever indebted to my Uncle who leads me along the path to my PhD and my dream. I thank my brothers and sisters for their support and help.

Finally, I dedicate this thesis to my wife and our three-month-old daughter. The encouragement from my beloved wife has been a powerful source of motivation and energy. You have stood by me and supported the family throughout my absences. Our lovely baby is the pride and joy of my life. I love you more than anything and I appreciate your patience and support during my PhD studies.



## **Chapter 1**

### **Introduction**

This chapter provides an introduction to the research background and explains the theoretical issues and empirical phenomenon that have motivated me to join the intellectual conversation on the topic of employee empowerment practices. After outlining the aim and the significance of the research (why I decided to do this PhD), I discuss the scope and the structure of the thesis, explaining how I conducted the research to address the research questions. Finally, I present how this thesis and its constituent chapters contribute to the relevant theoretical literature and managerial practices.

## **1.1 Background**

For decades, empowerment of employees has been of great interest to both management researchers and practitioners (Conger & Kanungo, 1988; Kanter, 1977; Wall, Wood, & Leach, 2004). The origins of the concept of empowerment can be traced back to such fields as politics and social work (Fenton-O'Creevey, Wood, & Callerot, 1998). Empowerment in this context is mainly concerned about the broad themes in those fields such as the nature of power and social democracy (Parsons & Smelser, 1956; Strauss & Cropsey, 2012). Empowerment, characterized by political participation and strengthening the power of the underrepresented, has been viewed as critical for addressing fundamental social issues (Zald & McCarthy, 1987). The modern form of empowerment was manifested in the civil and women's rights social movements in the 1960s (Bartunek & Spreitzer, 2006; Zald, 2002). However, when introduced to the management field, empowerment typically has a more restricted meaning (Wall et al., 2004). It broadly refers to transferring of decision-making rights from managers to employees to enhance their autonomy and involvement at work (Conger & Kanungo, 1988; Wall, Cordery, & Clegg, 2002). The main focus of empowerment within management is to increase productivity, and hence loses the emphasis on furthering employees' interests (Bartunek & Spreitzer, 2006).

The history of management, and especially industrial/organizational (I/O) psychology, reflects the theme of empowerment in one way or another. Against the backdrop of scientific

management that focused on the creation of narrowly defined jobs (Taylor, 1911), management scholars began to probe the issue of alienation of workers reflected in low morale and high turnover in the early 20th century (Thorndike, 1917; Wall et al., 2004). The pioneer work of Hawthorne studies led by Mayo (1933) gave rise to the human relations movement which turned attention to socio-psychological aspects of human behaviour at work (Roethlisberger & Dickson, 2003). They criticized scientific management and proposed that involving employees in decision making process benefited work productivity as well as employees' morale (Lewin, 1947; Wilkinson, 1998). McGregor (1960) specified two types of human nature -Theory X and Theory Y, and corresponding management styles. Theory X assumes that average employees are lazy and have little or no ambition, and, thus, strict supervision is necessary to manage employees. Theory Y, by contrast, holds that employees enjoy their work and are internally motivated, and, therefore, managers should reduce direct supervision and encourage employees to take more responsibility for their work. Likewise, Likert (1961) proposed four management models to highlight the superiority of the participative model of management in terms of a high level of work motivation and satisfaction. The work of McGregor and Likert inspired a large volume of studies on the effect on participative management on employee job satisfaction and performance (Forrester, 2000; Latham, Mitchell, & Dossett, 1978).

The human relations' approach to empowerment outlined above generally emphasized the elicitation of employee input into decision making (Robbins, Crino, & Fredendall, 2002). Based on the human relations movement, two separate subsequent theoretical developments approach empowerment by broadening employees' influence at work: the theory of job design (e.g. Hackman & Oldham, 1976) and social-technical systems theory (e.g. Trist & Bamforth, 1951). The job design theory promoted a more individualist way to increase employees' autonomy and discretion as well as other dimensions of the job (Hackman & Oldham, 1976). These changes in the job increase employees' internal motivation through satisfying their need for meaningfulness of the work (Hackman & Oldham, 1976). On the other hand, the social-technical systems theory considers teams or groups as the unit of analysis and advocates the

delegation of decision-making power to employee groups such as self-managing or semi-autonomous work teams (Herzberg, 1966; Trist & Bamforth, 1951). Work designed in this manner ensures that the social and technical aspects of the organization operates smoothly to increase work outcomes (Wall, Kemp, Jackson, & Clegg, 1986). Both theories maintain that change of job structure to delegate substantial decision making rights to workers increase employees' intrinsic motivation, initiative, implicit knowledge and work performance (Hackman & Oldham, 1976; Lawler, Mohrman, & Ledford, 1992; Wall et al., 2002).

In the 1980s, Walton (1985) and Lawler (1986) began to shift the attention of efficacy of empowerment practices from the individual and group level to the organizational level. Walton (1985) has pointed out that empowerment practices in the forms of job autonomy and self-managing work teams are integral to "high commitment management" which encompasses a coherent set of human resource management (HRM) practices. Likewise, Lawler (1986) has proposed that empowerment practices are the core of the "high involvement management" that includes other HRM practices such as performance-based payment and extensive training. Both of them have argued that empowerment practices, embedded in a cluster of HRM practices, play a key role in promoting organizational effectiveness in constantly changing economic environments. Lawler and Walton's work sparked much research into testing the relationship between empowerment practices, other HRM practices and organizational performance (Boselie, Dietz, & Boon, 2005; K. Jiang, Lepak, Hu, & Baer, 2012). Although the above literature all advocated employee empowerment practices in one form or another, there was a lack of agreement upon the definition of the concept of employee empowerment practices (Robbins et al., 2002). Seibert, Silver, and Randolph (2004) integrated pervious literature and defined employee empowerment practices as being composed of three interrelated HRM practices: information sharing, job autonomy through boundaries, and team accountability. This thesis adopts this definition of employee empowerment practices and uses the terms "employee empowerment practices" and "empowerment practices" interchangeably to refer to the same organizational phenomenon. Scholars' interest in empowerment practices continued in the

2000s. Recent development in the employee empowerment practices research looked into how empowerment practices interacted with other management practices to affect organizational performance, the mechanism between empowerment practices and performance outcomes, and the boundary conditions of the relationship between empowerment practices and organizational performance (Birdi et al., 2008; Y. Jiang, Colakoglu, Lepak, Blasi, & Kruse, 2015; Wood, Burridge, Rudloff, Green, & Nolte, 2015).

From a practical point of view, employee empowerment practices are understood as granting employees the necessary decision-making rights for executing their work, such as with production, customer service and quality control (e.g. see Lawler, 1992). Consistent with theoretical development, a variety of popular empowerment initiatives were used in management circles. In the 1970s, the job enrichment movement began to provide employees with an increasing amount of control over their work processes (Herzberg, 1974). A key component of this initiative was granting employees more authority and responsibility over the planning and execution of his or her work. At the same time, the Quality of Work Life movement gained momentum (Darts & Cherns, 1975). This movement involved a set of democratic management practices such as joint labour-management committees to enable employees to participate in a wide range of issues as well as control their own work time and scheduling (Elizur & Shye, 1990).

From the 1980s to 1990s, Total Quality Management (TQM) became popular due to the rise of Japan's global economic status and its managerial innovations (Deming, 1986). The premise of TQM was that quality control was an integral part of production process and employees needed to take responsibility for the product quality (Powell, 1995). It emphasized delegation of operational decision making to operators to continuously improve quality through the form of off-line teams (e.g. quality circles) (Birdi et al., 2008). At the same time, high involvement management took hold and viewed information sharing, performance-based rewards, knowledge and skills development, and transfer of power as an integrated whole to improve organizational performance. During this period, empowerment practices were also

advocated by prescriptive management writers such as Peter and Waterman (1982), Drucker (1988), and Kanter (1989). Its popularity within the management circle was testified by a CEO who stated that: “No vision, no strategy can be achieved without able and empowered employees” (cited in Argyris, 1998, p. 98).

In the 2000s to the present, high performance work systems (HPWS), which entails a bundle of HRM practices such as empowerment practices, highly selective staffing, and performance-based pay as a synergistic set (Jackson, Schuler, & Jiang, 2014), carried the ethos of high involvement management to advocate empowerment practices. This period also witnessed a modern view of empowerment practices consisting of three interrelated HRM practices: information sharing, autonomy through boundaries, and team accountability (Randolph, 1995). Empowerment practices, as the basis of HPWS (J. Lawler, Chen, Wu, Bae, & Bai, 2011), are typically regarded the source of competitive advantage through the creation of valuable and inimitable human resources (Lengnick-Hall, Lengnick-Hall, Andrade, & Drake, 2009). Empowerment practices, or more generally HPWS, are hailed as “best practices” to enhance organizational performance and achieve the status of global standard HR practices (Chen, Lawler, & Bae, 2005).

## **1.2 Aims and Significance of the Research**

### **1.2.1 Aims of the research**

This thesis aims to tackle the overarching question: why firms adopt various degrees of employee empowerment practices? By answering this question, it intends to depict a more comprehensive view of employee empowerment practices by taking into account both antecedents and outcomes of empowerment practices. To do so, this thesis draws on a variety of theoretical perspectives from management and organization field.

As noted in the research background, employee empowerment practices have attracted substantial attention from both the academic and practice field. A key theme of the prevalence of empowerment practices is that these practices are expected to lead to improved

organizational performance, in addition to improved employee morale (Wall et al., 2004). This view has been supported by a large amount of empirical work, although inconsistency exists in the literature (Wood et al., 2015). However, a more fundamental issue of what drives firms to adopt various degrees of empowerment practices in the first place is still largely unknown (Arthur, Herdman, & Yang, 2014; Kaufman & Miller, 2011). This thesis aims to address this issue from three distinctive theoretical perspectives: transaction cost economics (TCE) (Williamson, 1975), knowledge-based view (KBV) of the firm (Grant, 1996), and institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Specifically, drawing on TCE perspective, employee empowerment practices are adopted to economize on transaction costs arising from employee-employer exchange relations. From a KBV perspective, employee empowerment practices are adopted to strategize their knowledge stock through individual-level mechanisms (e.g. psychological empowerment). Based on institutional theory, this thesis explores how external and internal institutions influence empowerment practices in MNE subsidiaries in China.

### **1.2.2 Significance of the research**

Employee empowerment practices have become a core notion in contemporary management thinking (E. Lawler, 1986; Seibert, Silver, & Randolph, 2004; Wall et al., 2002). At its core, the concept of employee empowerment practices entails allocating increased decision-making authority for lower-level employees or employee groups for the execution of their primary work tasks (Robbins et al., 2002). The popularity of empowerment practices is understandable as a large body of research demonstrates the positive effect of these practices on organizational outcomes such as organizational performance, productivity, and innovation (Foss, Minbaeva, Pedersen, & Reinholt, 2009; Jackson et al., 2014; Seibert et al., 2004). Historically, interest in empowerment practices focused on its effect on individuals (e.g. job satisfaction and performance), whereas a renewed zest for empowerment practices views it as an organizational phenomenon with an emphasis on its organizational outcomes (E. Lawler et al., 1992). The

underlying theoretical rational for the benefits of empowerment practices is mainly drawn from RBV and the organizational behaviour (OB) field (Boselie et al., 2005). It is argued that employee empowerment practices can build human resources that are valuable, rare, inimitable and non-substitutable which are necessary for organizational competitive advantage (Barney, 1991). Similarly, from an OB perspective, empowerment practices can enhance desired employee work attitudes and behaviours, which collectively lead to improved organizational performance (Bowen & Ostroff, 2004). However, two related issues merit further investigation.

Firstly, the predominance of RBV and OB in the empowerment practices literature shifts researchers' attention to the outcome of empowerment practices, resulting in a shortfall of understanding the antecedents of empowerment practices. From a practical point of view, given the years of advocacy for the benefits of empowerment practices, it is expected that more organizations would adopt a higher degree of empowerment practices (Kaufman, 2015). However, the empirical findings offer little support for this expectation. For instance, a survey of UK manufacturing companies showed that only 23% of the companies surveyed adopted a higher degree of empowerment practices (Waterson et al., 1999). Similarly, Kaufman (2011) suggested that there was no significant increase of the use of advanced HRM practices including employee empowerment practices from 1994 to 2005. These findings reveal an empirical anomaly which the previous literature of empowerment practices cannot adequately explain. From a theoretical point of view, although early theorizing of strategic HRM literature arose to understand how external and internal organizational environments shape HRM practices (Jackson, Schuler, & Rivero, 1989), subsequent development in HRM research pays less attention to the antecedents of HRM practices (Jackson et al., 2014). While some work offers insights into the antecedents of HRM systems as a whole, recent developments in HRM research indicates that the antecedents of employee empowerment practices may be distinct from other HRM practices in the HRM system (Wood et al., 2015). Therefore, there is still a lack of understanding of inter-firm variability of empowerment practices (Kaufman, 2012).



Secondly, with respect to the outcome of employee empowerment practices, previous studies concentrated on organizational performance (Jackson et al., 2014). This is understandable as the main theoretical underpinning of research on empowerment practices is RBV. However, despite the advocated benefits by many researchers and popular books, other scholars questioned whether empowerment practices were truly effective or more appropriately viewed as a fad (Abrahamson, 1996; Argyris, 1998). With the emergence of the knowledge-based view (KBV) of the firm from the extension of RBV (Grant, 1996), HRM scholarship turned its attention to the influence of HRM practices on organizational knowledge processes (Minbaeva, 2013), which ultimately lead to competitive advantage. In this regard, a growing stream of research has examined the relationship between organizational-level HRM practices and knowledge transfer process (Kang, Morris, & Snell, 2007; Minbaeva, Pedersen, Björkman, Fey, & Park, 2003). Although these studies shed light on the important role of HRM practices in facilitating the knowledge transfer process, they tended to concentrate on the organizational-level of analysis (Minbaeva, Foss, & Snell, 2009). The individual-level mechanism through which HRM practices influences knowledge processes has been largely ignored (Foss, 2011). Recently, there has been a call for more research on the individual-level mechanisms that underlie the relationship between organizational-level HRM practices and knowledge process (Minbaeva, 2013).

In sum, the limited adoption of a higher degree of employee empowerment practices and the complexity of the relationship between empowerment practices and knowledge processes need to be further clarified. To address these issues, this thesis offers a comprehensive theoretical framework of determinants as well as outcomes of empowerment practices. This undertaking is of great significance. Informed by the factors facilitating or constraining empowerment practices, organizations will not follow the zeitgeist but rather will choose appropriate degrees of empowerment practices to take full advantage of their potential. Additionally, a more thorough understanding of the underlying mechanisms between empowerment practices and knowledge processes enables managers to create the necessary

conditions to strategize their knowledge resources to gain a knowledge-based competitive advantage. Overall, this thesis advances our knowledge of why firms adopt various degrees of empowerment practices.

### **1.3 A Schematic Overview of the Thesis**

This thesis intends to address the overarching question from three distinctive but complementary theoretical perspectives: TCE, KBV, and institutional theory. These theories are mainly concerned about transaction costs minimization, knowledge-based value creation, and legitimacy in given institutional environments, respectively. (Grant, 1996; Meyer & Rowan, 1977; Williamson, 1975). Each of these perspectives offers a unique explanation to the overall research question.

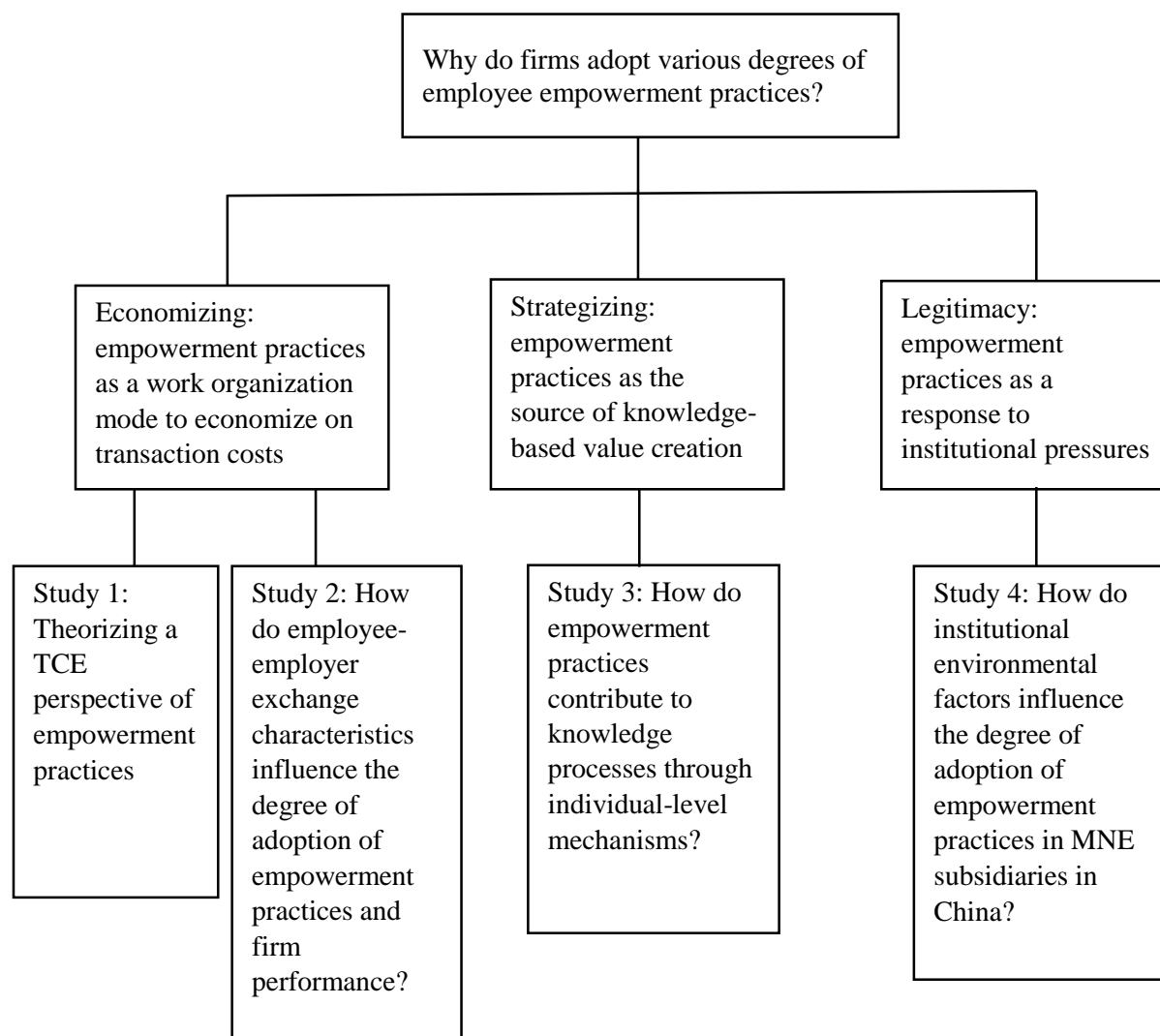
From a TCE perspective, various degrees of empowerment practices are adopted to economise on transaction costs between the employee-employer exchange relationships. As noted earlier, drawing on RBV, previous research focused on the value creation outcome of empowerment practices (Huselid, 1995; Subramony, 2009). In this regard, it can be interpreted that the expected performance gains prompt firms to adopt a higher degree of empowerment practices (Y. Jiang et al., 2015). While this line of research emphasizes value creation as the main driver of implementation of empowerment practices, it overlooks the cost side of these practices (Batt, 2001). As empowerment practices are, in essence, a work organization mode to coordinate the employee-employer exchange relationship, economising on transaction costs may play a prominent role in how the exchange relationship is governed (Williamson, 1985, 1991). As an initial step to introduce TCE into the analysis of empowerment practices, Study 1 develops a theoretical framework to illuminate the theoretical relevance of TCE to empowerment practices research. Based on Study 1, Study 2 refines the TCE logic and provides empirical evidence for how employee-employer exchange characteristics influence the degree of adoption of empowerment practices as well as organizational performance. In doing so, this

thesis answers the recent call for a better understanding of the determinants of HRM practices through an economic lens (Kaufman, 2015).

While Study 1 and 2 highlight the under-theorized transaction costs as determinants of empowerment practices, this thesis also acknowledges the value creation aspect of empowerment practices as suggested by previous research (Jackson et al., 2014). Indeed, value creation offers a complementary perspective on how firms strategize their resources and capabilities by means of empowerment practices. However, unlike previous research which emphasizes organizational performance, Study 3 follows the KBV, a theoretical evolvement from RBV, to extend the value creation perspective by delineating how empowerment practices contribute to knowledge-based competitive advantage. Specifically, Study 3 proposes and tests a theoretical model of the individual mechanisms underlying the relationship between empowerment practices and knowledge transfer.

Economizing and strategizing perspectives discussed above emphasize firms' concerns about transaction cost minimization and value creation in explaining the variation of empowerment practices adopted (Williamson, 1991). However, they do not take into account the institutional context in which empowerment practices are established (Kalleberg & Reve, 1993). Institutional theory posits that organizations will implement an organizational practice, even if technically inefficient, in order to achieve legitimacy in the institutional environment (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Although empowerment practices have been widely accepted and hailed as "best practices", they originated from Western societies and reflect the more egalitarian cultures of these societies (Y. Jiang et al., 2015). When MNEs operate in a more hierarchical country like China, the effectiveness of empowerment practices may be constrained since they do not fit the societal values. To better understand how institutional context factors influence empowerment practices, Study 4 invokes institutional theory to develop a conceptual model of how MNEs' external and internal institutional factors influence empowerment practices in MNE foreign subsidiaries. Overall, drawing on three distinct theoretical perspectives, this thesis intends to deepen the understanding of why firms

adopt various degrees of employee empowerment practices (c.f. schematic overview of the thesis in Figure 1.1).



**Figure 1.1 Schematic overview of the thesis**

## **1.4 A Summary of Chapters**

### **4.1 A Summary of Study 1 (Chapter 2): Why do Firms Adopt Empowerment Practices and How do Such Practices Affect Firm Performance? A Theoretical Extension**

Employee empowerment practices have been hailed as “best practices” for enhancing organizational effectiveness (Forrester, 2000; E. E. Lawler, Mohrman, & Benson, 2001).

However, the concentration on the value creation role of empowerment practices leaves the costs of these practices largely unknown (Batt, 2001). To better understand the costs and benefits of empowerment practices, Study 1 (Chapter 2) draws on TCE to investigate the economic efficiency nature of these practices. Some scholars have claimed that TCE is not an appropriate theoretical tool for analysing HRM issues - including empowerment practices - due to its assumption of behaviour opportunism (Boselie et al., 2005; Ghoshal & Moran, 1996). Currently, the application of TCE in HRM research remains rudimentary (Wall et al., 2002). To shift the paradigm to an economic perspective of HRM practices (Kaufman, 2015), Study 1 aims to clarify the key concepts and theoretical rational of TCE as well as its implications for empowerment practices. Specifically, this study conceptualizes empowerment practices as a work organization mode or arrangement to economize on transaction costs of the employee-employer exchange relationship. It is argued that performance ambiguity and human asset specificity, two major characteristics of the employee-employer exchange relationship, interact in determining the implementation of empowerment practices by firms. This study also develops a contingency perspective of how empowerment practices affect firm performance by delineating the moderating role of empowerment practices in the relationship between employee-employer exchange characteristics and firm performance.

#### **4.2 A Summary of Study 2 (Chapter 3): A Transaction Cost Analysis of the Determinants and Outcomes of Empowerment Practices: Evidence from Multinational Subsidiaries in China**

Following on a theoretical extension of a TCE framework of empowerment practices in Study 1, Study 2 conducts an empirical study to elaborate and test the employee-employer exchange characteristics as determinants of the degree of empowerment practices. Additionally, Study 2 assesses whether firms with matched degrees of employee-employer exchange characteristics and empowerment practices perform better than those with mismatched degrees of employee-employer exchange characteristics and empowerment practices. Empirical data was collected from 99 MNE subsidiaries operating in China. This empirical setting is chosen for two reasons. Firstly, choosing MNE subsidiaries operating in China extends the empirical setting of research

on empowerment practices to an important but under-researched context. China has become the largest recipient of foreign direct investment (FDI) among developing countries and the second in the world after the United States (Cai, Lu, Wu, & Yu, 2016). However, despite growing research interest in HRM activities including recruitment and selection, training and development, and performance management in MNE subsidiaries in China (Zhu, 2008; Zhu, Cooper, Fan & De Cieri, 2013), there is a paucity of studies on empowerment practices in these enterprises. By contrast, there is a large volume of work on empowerment practices in Western contexts (Huang & Gamble, 2011). Thus, choosing MNE subsidiaries in China can expand our knowledge about empowerment practices in a non-Western context.

Secondly, this empirical setting provides rich information regarding a wide range of factors affecting empowerment practices through three distinctive theoretical lenses, i.e. TCE, KBV, and institutional theory. Previous research has suggested that empowerment practices are not favoured by Chinese firms due to a strong hierarchical culture (Jiang et al., 2015; Su, Wright, & Ulrich, 2015). In the Chinese context, scholars argue that Western MNEs must make adaptations to local practices (Bjorkman & Lu, 1999; Zhu, 2008). Given the unfavourable conditions for empowerment practices in the hierarchical culture, choosing MNE subsidiaries in China may make other factors influencing empowerment practices such as economising (Study 2) and strategizing (Study 3) more prominent. Furthermore, although MNE subsidiaries in China are under strong local institutional pressures to adopt a lower degree of empowerment practices, the subsidiaries may also take an active agency role to respond to the local institutional environment (Kostova, Roth, & Dacin, 2008). As such, choosing MNE subsidiaries in China will not only take into account the local institutional environment but also highlight the role of the subsidiary in shaping empowerment practices in MNE subsidiaries. Taken together, MNE subsidiaries in China provide an ideal empirical setting for evaluating the economising, strategizing, and institutional legitimacy theoretical models of empowerment practices.

The results of Study 2 reveal that both performance ambiguity and human asset specificity is positively related to the degree of empowerment practices. However, there is no interaction effect of performance ambiguity and human asset specificity on the degree of empowerment practices. Furthermore, firms with matched degrees of exchange characteristics and empowerment practices perform better than firms with a high degree of exchange characteristics and a low degree of empowerment practices. However, firms with matched degrees of exchange characteristics and empowerment practices do not perform significantly better than firms with a low degree of exchange characteristics and a high degree of empowerment practices. The partial support of employee-employer exchange characteristics as a moderator between empowerment practices and organizational performance may indicate the need for elimination of confounding factors from other theoretical perspectives.

#### **4.3 A Summary of Study 3 (Chapter 4): Employee Empowerment Practices and Knowledge Transfer: the Role of Individual-level Mechanisms**

While economizing (Study 1 and 2) provides valuable insights into the determinants of empowerment practices and organizational performance, strategizing is also of particular relevance to empowerment practices. This is because these practices are concerned primarily with the organizational knowledge base-employees (Foss, 2011). Study 3 adds to the literature by theorizing and testing how empowerment practices contribute to knowledge transfer through an individual-level mechanism (i.e. psychological empowerment) (Conger & Kanungo, 1988).

As the model is multi-level in nature, organizational-level data is collected from HR managers and individual-level data is collected from employees. Hierarchical linear modelling (HLM; Raudenbush & Bryk, 2002) is used as an analytical tool. HLM is a statistical technique that accounts for nesting in data. It takes into account both individual and group level variance in individual outcomes. Furthermore, both individual-level and group-level variables can be processed as predictors of individual-level outcomes (Hofmann, 1997). Based on a sample of 331 employees from 40 MNE subsidiaries in China, our analysis shows that employee perceived empowerment practices mediate the relationship between organizational

empowerment practices and psychological empowerment. Psychological empowerment, in turn, is positively related to knowledge sharing behaviour that collectively contributes to organizational knowledge transfer.

#### **4.4 A Summary of Study 4 (Chapter 5): What Determines the Adoption of Employee Empowerment Practices by MNE Subsidiaries in China? An Institutional Perspective**

Study 4 inquires about how contextual factors such as cultural distance and subsidiaries' characteristics influence the degree of adoption of empowerment practices in MNE subsidiaries in China through an institutional lens (DiMaggio & Powell, 1983). As with Study 2, based on 99 MNE subsidiaries in China, hierarchical regression analysis and ANOVA are performed to test the proposed hypotheses in Study 4. The results suggest that the extent of the MNE's global integration and the subsidiary's trust in the parent company are positively associated with the degree of empowerment practices in these subsidiaries. With regard to subsidiary roles, only partial support for the hypothesis is found. Specifically, the highest degree of empowerment practices is found for Integrated Players and Local Implementers adopt a higher degree of empowerment practices than Global Innovators and Local Innovators. However, the lowest degree of adoption of empowerment practices is found for both Local Innovators and Global Innovators. Support is not found for the relationship between the presence of foreign directors and empowerment practices. Finally, contrary to the hypothesis, managers' perceived cultural distance was positively related to the degree of empowerment practices. These results suggest that although the institutional environment may shape the subsidiary' management practices, the subsidiary may also act as a proactive agency to initiate changes in the local institution environment (Rosenzweig & Singh, 1991).

### **1.5 Contributions**

Drawing on three major theoretical perspectives (TCE, KBV, and institutional theory), this research contributes to a more complete understanding of why firms adopt different degrees of empowerment practices. Going beyond the RBV-based argument that empowerment practices



lead to improved organizational performance, this thesis answers the call for more research on the antecedents and outcomes of empowerment practices from diverse theoretical perspectives (Jackson et al., 2014; Kaufman, 2015). The findings from the three empirical studies largely support the usefulness of these perspectives in explaining empowerment practices. I hereby emphasize the major theoretical contributions of this thesis.

### **1.5.1 Contribution to an economic view of empowerment practices**

Study 1 and Study 2 theoretically and empirically contribute to an economic view of empowerment practices. Viewing empowerment practices as a work organization mode to govern employee-employer exchange relationships highlights the economic efficiency aspect of empowerment practices. Since previous studies mainly approach empowerment practices from a value creation perspective, they have failed to consider the costs of these practices (Batt, 2001; Kaufman, 2015; D. Kim, 2005). Despite that several scholars have paid attention to the costs of these practices, their focus has been on the direct labour costs, such as wages (Cappelli & Neumark, 2001; Osterman, 2000), thus leaving the transaction costs under-theorized. The transaction costs between the employee-employer exchange relationship include: searching and identifying employees' work performance information to direct employees' work activities, monitoring employees' work activities to avoid shirking by employees, the costs of employees' bargaining to expropriate returns from the specified assets, and the costs of unwanted employee turnover (Brown, Gianiodis, & Santoro, 2015; Vázquez, 2004; Williamson, 1985). These transaction costs have profound implications on the establishment and performance of work organization.

Based on TCE, Study 1 and 2 propose that human asset specificity and performance ambiguity, two employee-employer exchange characteristics, determine the degree of empowerment practices adopted by firms. This is because human asset specificity and performance ambiguity make it difficult to monitor employees' work activities and enhances employees' opportunistic behaviours, rendering the traditional authority mode of work

organization unfeasible (Kidwell & Bennett, 1993; Wang & Barney, 2006; Williamson, 1981). Consequently, a higher degree of empowerment practices are adopted to align employees' interests with the employers' to reduce the substantial costs associated with monitoring employees' activities (Sieger, Zellweger, & Aquino, 2013). The empirical findings in Study 2 have confirmed this proposition. This study has further considered the possible interaction effect of human asset specificity and performance ambiguity on the degree of empowerment practices. Theorizing the interaction effect of transaction characteristics on governance structures is also an underdeveloped area in TCE (David & Han, 2004). It is expected that performance ambiguity may strengthen the relationship between human asset specificity and empowerment practices, given that a higher degree of performance ambiguity reduces the information available for the employer to protect the firm-specific human assets. However, this view is not supported by the empirical result and the possible reason may be that the effect of human asset specificity is so powerful that it alone might determine the degree of empowerment practices, regardless of the characteristic of performance ambiguity (Santoro & McGill, 2005).

Study 2 also extends Wall et al.'s (2002) work by providing a contingency framework of the relationship between employee-employer exchange characteristics, empowerment practices and organizational performance. This study reveals that firms with matched degrees of exchange characteristics and empowerment practices perform better than firms with a high degree of exchange characteristics and a low degree of empowerment practices. In doing so, this thesis answers recent calls to explore more contingency factors between empowerment practices and organizational performance (Tzabbar, Tzafrir, & Baruch, 2017).

Study 1 and 2 demonstrate the explanatory power of TCE to explain empowerment practices. In this regard, this thesis challenges the assertion that the assumption of TCE on opportunism prevents it from analysing intra-firm governance issues (e.g. empowerment practices) (Ghoshal & Moran, 1996; Spencer, 2013). The finding of a positive relationship between human asset specificity and empowerment practices resolves the long running controversy revolving the relationship between asset specificity and hierarchical control

(Vázquez, 2006). It reveals that unlike commercial transactions where asset specificity leads to hierarchical control, human asset specificity in labour transactions requires empowerment practices to protect the exchange relationship. Additionally, this thesis suggests that integrating research from HRM and OB literature (e.g. team work, psychological ownership) with TCE, strengthens the explanatory power of TCE, especially in the employee-employer exchange context. Given the result of these studies, TCE may have the potential to analyse more employment relationship issues such as compensation and training (Barringer & Milkovich, 1998; Nordhaug, 2004).

### **1.5.2 Contribution to a strategizing view of empowerment practices**

Study 3 highlights the role of strategizing knowledge resources as the rationale for implementation of empowerment practices. Extending prior literature on the individual-level mechanisms between HRM practices and knowledge transfer (Minbaeva, 2013), Study 3 emphasizes how empowerment practices fosters psychological empowerment, a cognitive motivation, to influence knowledge transfer. While employees' internal motivation is recognized in prior studies as key mechanisms between empowerment practices and knowledge sharing, it stresses employees' enjoyment to share knowledge (Foss et al., 2009). Nevertheless, employees' enjoyment to share knowledge does not ensure that they will share knowledge for other employees' need or for achieving organizational goals, which is of vital importance for firms' knowledge-based competitive advantage. As psychological empowerment emphasizes the valued goals and meaningfulness of work as the source of motivation, it promotes employees to share knowledge in a goal oriented way (Osterloh & Frey, 2000). Thus, Study 3 contributes to the research on empowerment practices and knowledge transfer by developing a complementary individual motivational process (Foss et al., 2009; Minbaeva et al., 2009).

Methodologically, prior research tends to empirically test the sole individual-level relationship based on individual-level data (Minbaeva, Mäkelä, & Rabbiosi, 2012). This study adopts a more refined approach by constructing and testing a multi-level model using the HLM

method. This method will provide a better understanding of the multi-level nature of micro-foundations of knowledge-based competitive advantage (Felin, Foss, & Ployhart, 2015).

This study also contributes to psychological empowerment literature and knowledge sharing literature. Although extensive research has been conducted into the attitudinal and behaviour outcomes of psychological empowerment, such as job satisfaction and organizational citizenship behaviour (OCB) (Maynard, Gilson, & Mathieu, 2012), there is paucity of research on the relationship between psychological empowerment and knowledge sharing, an important behaviour outcome in contemporary knowledge economy. This study extends the psychological empowerment literature by disclosing its important role in facilitating knowledge sharing (Seibert, Wang, & Courtright, 2011). Meanwhile, this research enriches the literature on antecedents of knowledge sharing. As noted by Wang (2010), while the role of motivation has been recognized in the knowledge sharing literature (Goodman & Darr, 1998; Hansen, Mors, & Løvås, 2005), cognitive-based motivation theory has not been applied as often in knowledge sharing research (Quigley, Tesluk, Locke, & Bartol, 2007). As a cognitive motivation construct, psychological empowerment provides additional insights with respect to how to motivate employees to share knowledge.

### **5.3 Contribution to an institutional legitimacy view of empowerment practices**

Study 4 proposes an institutional theory based model of determinants of empowerment practices in MNE subsidiaries in China. Although examining the subsidiaries' HRM practices through an institutional lens is major undertaking in international HRM research (Björkman & Welch, 2015), prior literature is primarily interested in the adoption of general HRM system such as HPWS (J. Lawler et al., 2011; Rosenzweig & Nohria, 1994). In this regard, Study 4 answers the calls to analyse each HRM practice separately since different HRM practices may be determined by different factors (Wood et al., 2015). This study contributes to a refined understanding of specific factors influencing empowerment practices adopted by MNE subsidiaries in China. In addition, international management research has been called to

incorporate proactive agency roles into the standard institutional determinism framework (J. Lawler et al., 2011). As this study takes into account a host of subsidiary factors as determinants of empowerment practices adopted by MNE subsidiaries, it offers additional insights into the agency roles in the process of the institutionalisation of empowerment practices (Kostova, Roth, & Dacin, 2008).

## **1.6 Concluding Remarks**

Aiming to address the central question of why some firms adopt a higher degree of empowerment practices while others do not, this thesis draws on TCE, KBV and institutional theory to explore a series of underlying factors associated with the variation of empowerment practices. Table 1.1 provides a brief summary of the four studies.

Beginning from a TCE perspective of empowerment practices as a work organization mode, I found that employee-employer exchange characteristics (i.e. human asset specificity and performance ambiguity) determine the degree of empowerment practices adopted by firms. These findings extend the TCE logic from inter-firm transactions to internal organization of the firm. Furthermore, consistent with TCE logic, firms with matched degrees of exchange characteristics and empowerment practices perform better than firms with a high degree of exchange characteristics and a low degree of empowerment practices. However, firms with matched degrees of exchange characteristics and empowerment practices do not perform significantly better than firms with a low degree of exchange characteristics and a high degree of empowerment practices. This finding suggests that combining TCE with other theoretical perspectives may help to better understand the relationship between empowerment practices and organizational performance.

I then moved on to explore how empowerment practices play a strategizing role by contributing to the knowledge transfer process. Integrating KBV and psychological empowerment literature, I found that psychological empowerment serves as a key individual mechanism between empowerment practices and knowledge transfer. Empowerment practices

can motivate employees to share knowledge for the achievement of organizational goals through psychological empowerment. These findings extend previous studies on the micro-foundation of knowledge-based competitive advantage by illuminating a cognitive motivation mechanism (i.e. psychological empowerment).

Lastly, I analysed institutional contextual factors that may influence the degree of empowerment practices in MNE subsidiaries in China. I found that the extent of the MNE's global integration, MNE's subsidiary roles, and the subsidiary's trust in the parent company affect the degree of empowerment practices adopted by subsidiaries. These findings provide more insights on institutional factors that shape the degree of empowerment practices.

Overall, this thesis provides a comprehensive understanding of why firms adopt various degrees of empowerment practices. The findings contribute to a new economic efficiency perspective of empowerment practices, and extend and enrich the strategizing and institutional legitimacy perspective of implementation of empowerment practices. Based on the results of this thesis, it is hoped that future research integrates the three theoretical perspectives outlined above with other theoretical perspectives to provide a more systematic knowledge of employee empowerment practices as well as other HRM practices.

**Table 1.1 A Summary of the Four Studies**

<b>Studies/Chapters</b>	<b>Titles</b>	<b>Contributions</b>	<b>Authorship</b>	<b>Method</b>	<b>Publications &amp; Conference Presentations</b>
Study 1 (Chapter 2)	Why Do Firms Adopt Empowerment Practices and How Do Such Practices Affect Firm Performance? A Theoretical Extension	Goes beyond RBV and OB perspectives of empowerment practices to propose an economic view of empowerment practices	First author	Theory construction	Human Resource Management Review (under 2nd round review); ANZAM 2015 Competitive session
Study 2 (Chapter 3)	A Transaction Cost Analysis of the Determinants and Outcomes of Empowerment Practices: Evidence from Multinational Subsidiaries in China	Demonstrates employee-employer exchange characteristics as antecedents of empowerment practices and as an contingency factor between empowerment practices and organizational performance	First author	-Survey of 99 HR managers from 99 MNE subsidiaries in China -Online and paper based questionnaire -Hierarchical regression and ANOVA	Human Resource Management Journal (under 1st round review)
Study 3 (Chapter 4)	Employee Empowerment Practices and Knowledge Transfer: The Role of Individual-level Mechanisms	Highlights the strategizing role of empowerment practices and extends previous research on individual-level mechanisms linking empowerment practices and knowledge transfer	Sole author	-Survey of 40 HR managers from 40 MNE subsidiaries in China and 331 employees from these 40 subsidiaries. -Online and paper-based questionnaire -Hierarchical linear modelling	ANZAM 2016 Competitive session; To be submitted to the International Journal of Human Resource Management
Study 4 (Chapter 5)	What Determines the Adoption of Employee Empowerment Practices by MNE Subsidiaries in China? An Institutional Perspective	Reveals the specific institutional factors influencing empowerment practices in MNE subsidiaries in China.	Sole author	-Survey of 99 HR managers from 99 MNE subsidiaries in China -Online and paper based questionnaire -Hierarchical regression and ANOVA	2016 International Research Symposium on “Social Identity in the Workplace and Employee Engagement”; To be submitted to International Journal of Manpower

## References

- Abrahamson, E. (1996). Management fashion. *Academy of Management Review*, 21(1), 254-285.
- Argyris, C. (1998). Empowerment: The Emperor's New Clothes. *Harvard Business Review*, 76(6), 98-105.
- Arthur, J. B., Herdman, A. O., & Yang, J. (2014). How top management HR beliefs and values affect high-performance work system adoption and implementation effectiveness. *Human Resource Management*, 55(3), 413-435.
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99-120.
- Barringer, M. W., & Milkovich, G. T. (1998). A theoretical exploration of the adoption and design of flexible benefit plans: A case of human resource innovation. *Academy of Management Review*, 23(2), 305-324.
- Bartunek, J. M., & Spreitzer, G. M. (2006). The interdisciplinary career of a popular construct used in management: Empowerment in the late 20th century. *Journal of Management Inquiry*, 15(3), 255-273.
- Batt, R. (2001). The economics of teams among technicians. *British Journal of Industrial Relations*, 39(1), 1-24.
- Birdi, K., Clegg, C., Patterson, M., Robinson, A., Stride, C. B., Wall, T. D., & Wood, S. J. (2008). The impact of human resource and operational management practices on company productivity: A longitudinal study. *Personnel Psychology*, 61(3), 467-501.
- Björkman, I., & Lu, Y. (1999). The management of human resources in Chinese-Western joint ventures. *Journal of World Business*, 34(3), 306-324.
- Björkman, I., & Welch, D. (2015). Framing the field of international human resource management research. *The International Journal of Human Resource Management*, 26(2), 136-150.



- Boselie, P., Dietz, G., & Boon, C. (2005). Commonalities and contradictions in HRM and performance research. *Human Resource Management Journal*, 15(3), 67-94.
- Bowen, D. E., & Ostroff, C. (2004). Understanding HRM–firm performance linkages: The role of the “strength” of the HRM system. *Academy of Management Review*, 29(2), 203-221.
- Brown, J. A., Gianiodis, P. T., & Santoro, M. D. (2015). Following doctors’ orders: Organizational change as a response to human capital bargaining power. *Organization Science*, 26(5), 1284-1300.
- Cai, X., Lu, Y., Wu, M., & Yu, L. (2016). Does environmental regulation drive away inbound foreign direct investment? Evidence from a quasi-natural experiment in China. *Journal of Development Economics*, 123, 73-85.
- Cappelli, P., & Neumark, D. (2001). Do “high-performance” work practices improve establishment-level outcomes? *Industrial & Labour Relations Review*, 54(4), 737-775.
- Chen, S. J., Lawler, J. J., & Bae, J. (2005). Convergence in human resource systems: A comparison of locally owned and MNC subsidiaries in Taiwan. *Human Resource Management*, 44(3), 237-256.
- Conger, J. A., & Kanungo, R. N. (1988). The empowerment process: Integrating theory and practice. *Academy of Management Review*, 13(3), 471-482.
- Darts, L. E. & Cherns, A. B. (1975). *The quality of working life*. New York, NY: Free Press.
- David, R. J., & Han, S. K. (2004). A systematic assessment of the empirical support for transaction cost economics. *Strategic Management Journal*, 25(1), 39-58.
- Deming, W. E. (1986). *Out of the crisis*. Cambridge, MA: Massachusetts Institute of Technology, Center for Advanced Engineering Study
- DiMaggio, P., & Powell, W. W. (1983). The iron cage revisited: Collective rationality and institutional isomorphism in organizational fields. *American Sociological Review*, 48(2), 147-160.
- Drucker, P. (1988). The coming of the new organization. *Harvard Business Review*, 66(1), 45–53.

- Elizur, D., & Shye, S. (1990). Quality of work life and its relation to quality of life. *Applied Psychology: An International Review*, 39(3), 275-291.
- Felin, T., Foss, N. J., & Ployhart, R. E. (2015). The microfoundations movement in strategy and organization theory. *The Academy of Management Annals*, 9(1), 575-632.
- Fenton-O'Creevey, M., Wood, S. J., & Callerot, E. (1998). *Employee involvement within European multinationals*. Uxbridge, UK: European Works Council Study Group.
- Forrester, R. (2000). Empowerment: Rejuvenating a potent idea. *The Academy of Management Executive*, 14(3), 67-80.
- Foss, N. J. (2011). Invited editorial: Why micro-foundations for resource-based theory are needed and what they may look like. *Journal of Management*, 37(5), 1413-1428.
- Foss, N. J., Minbaeva, D. B., Pedersen, T., & Reinholt, M. (2009). Encouraging knowledge sharing among employees: How job design matters. *Human Resource Management*, 48(6), 871-893.
- Ghoshal, S., & Moran, P. (1996). Bad for practice: A critique of the transaction cost theory. *Academy of Management Review*, 21(1), 13-47.
- Goodman, P. S., & Darr, E. D. (1998). Computer-aided systems and communities: Mechanisms for organizational learning in distributed environments. *MIS Quarterly*, 22(4), 417-440.
- Grant, R. M. (1996). Toward a knowledge-based theory of the firm. *Strategic Management Journal*, 17(S2), 109-122.
- Hackman, J. R., & Oldham, G. R. (1976). Motivation through the design of work: Test of a theory. *Organizational Behaviour and Human Performance*, 16(2), 250-279.
- Hansen, M. T., Mors, M. L., & Løvås, B. (2005). Knowledge sharing in organizations: Multiple networks, multiple phases. *Academy of Management Journal*, 48(5), 776-793.
- Herzberg, F. I. (1966). *Work and the nature of man*. Cleveland, OH: World
- Herzberg, F. I. (1974). The wise old Turk. *Harvard Business Review*, 54(5), 70-80.
- Hofmann, D. A. (1997). An overview of the logic and rationale of hierarchical linear models. *Journal of management*, 23(6), 723-744.

- Huang, Q., & Gamble, J. (2011). Informal institutional constraints and their impact on HRM and employee satisfaction: evidence from China's retail sector. *The International Journal of Human Resource Management*, 22(15), 3168-3186.
- Huselid, M. A. (1995). The impact of human resource management practices on turnover, productivity, and corporate financial performance. *Academy of Management Journal*, 38(3), 635-672.
- Jackson, S. E., Schuler, R. S., & Jiang, K. (2014). An aspirational framework for strategic human resource management. *The Academy of Management Annals*, 8(1), 1-56.
- Jackson, S. E., Schuler, R. S., & Rivero, J. C. (1989). Organizational characteristics as predictors of personnel practices. *Personnel Psychology*, 42(4), 727-786.
- Jiang, K., Lepak, D. P., Hu, J., & Baer, J. C. (2012). How does human resource management influence organizational outcomes? A meta-analytic investigation of mediating mechanisms. *Academy of Management Journal*, 55(6), 1264-1294.
- Jiang, Y., Colakoglu, S., Lepak, D. P., Blasi, J. R., & Kruse, D. L. (2015). Involvement work systems and operational effectiveness: Exploring the moderating effect of national power distance. *Journal of International Business Studies*, 46(3), 332-354.
- Kalleberg, A. L., & Reve, T. (1993). Contracts and commitment: Economic and sociological perspectives on employment relations. *Human Relations*, 46(9), 1103-1132.
- Kang, S.-C., Morris, S. S., & Snell, S. A. (2007). Relational archetypes, organizational learning, and value creation: Extending the human resource architecture. *Academy of Management Review*, 32(1), 236-256.
- Kanter, R. M. (1977). *Men and women of the corporation*. New York, NY: Basic Books.
- Kanter, R. M. (1989). The new managerial work. *Harvard Business Review*, 67(6), 85-92.
- Kaufman, B. E. (2012). Strategic human resource management research in the United States: A failing grade after 30 years? *The Academy of Management Perspectives*, 26(2), 12-36.

- Kaufman, B. E. (2015). Market competition, HRM, and firm performance: The conventional paradigm critiqued and reformulated. *Human Resource Management Review*, 25(1), 107-125.
- Kaufman, B. E., & Miller, B. I. (2011). The firm's choice of HRM practices: Economics meets strategic human resource management. *Industrial & Labour Relations Review*, 64(3), 526-557.
- Kidwell, R. E., & Bennett, N. (1993). Employee propensity to withhold effort: A conceptual model to intersect three avenues of research. *Academy of Management Review*, 18(3), 429-456.
- Kim, D. O. (2005). The benefits and costs of employee suggestions under gainsharing. *Industrial & Labour Relations Review*, 58(4), 631-652.
- Kim, Y., & Gray, S. J. (2005). Strategic factors influencing international human resource management practices: An empirical study of Australian multinational corporations. *The International Journal of Human Resource Management*, 16(5), 809-830.
- Kostova, T., & Roth, K. (2002). Adoption of an organizational practice by subsidiaries of multinational corporations: Institutional and relational effects. *Academy of Management Journal*, 45(1), 215-233.
- Kostova, T., Roth, K., & Dacin, M. T. (2008). Institutional theory in the study of multinational corporations: A critique and new directions. *Academy of Management Review*, 33(4), 994-1006.
- Latham, G. P., Mitchell, T. R., & Dossett, D. L. (1978). Importance of participative goal setting and anticipated rewards on goal difficulty and job performance. *Journal of Applied Psychology*, 63(2), 163-171.
- Lawler, E. E., Mohrman, S. A., & Ledford, G. E. (1992). *Employee involvement and total quality management: Practices and results in Fortune 1000 companies*. San Francisco, CA: Jossey-Bass.

- Lawler, E. E. (1986). *High involvement management: Participative strategies for improving organizational performance*. San Francisco, CA: Jossey-Bass.
- Lawler, E. E., Mohrman, S. A., & Benson, G. (2001). *Organizing for high performance: Employee involvement, TQM, reengineering, and knowledge management in the Fortune 1000: The CEO report*. San Francisco, CA: Jossey-Bass.
- Lawler, J. J., Chen, S.-j., Wu, P.-C., Bae, J., & Bai, B. (2011). High-performance work systems in foreign subsidiaries of American multinationals: An institutional model. *Journal of International Business Studies*, 42(2), 202-220.
- Lengnick-Hall, M. L., Lengnick-Hall, C. A., Andrade, L. S., & Drake, B. (2009). Strategic human resource management: The evolution of the field. *Human Resource Management Review*, 19(2), 64-85.
- Lewin, K. (1947). Frontiers in group dynamics: Concept, method and reality in social science; social equilibria and social change. *Human Relations*, 1(1), 5-41.
- Likert, R. (1961). *New patterns of management*. New York, NY: McGraw-Hill;
- McGregor, D. (1960). *The human side of enterprise*. New York, NY: McGraw-Hill.
- Maynard, M. T., Gilson, L. L., & Mathieu, J. E. (2012). Empowerment—fad or fab? A multilevel review of the past two decades of research. *Journal of Management*, 38(4), 1231-1281.
- Mayo, G. E. 1933. *The human problems of an industrial society* (2nd ed.). New York, NY: Macmillan.
- Meyer, J. W., & Rowan, B. (1977). Institutionalized organizations: Formal structure as myth and ceremony. *American journal of sociology*, 83(2), 340-363.
- Minbaeva, D. B. (2013). Strategic HRM in building micro-foundations of organizational knowledge-based performance. *Human Resource Management Review*, 23(4), 378-390.
- Minbaeva, D. B., Foss, N., & Snell, S. (2009). Bringing the knowledge perspective into HRM. *Human Resource Management*, 48(4), 477-483.

- Minbaeva, D. B., Mäkelä, K., & Rabbiosi, L. (2012). Linking HRM and knowledge transfer via individual-level mechanisms. *Human Resource Management*, 51(3), 387-405.
- Minbaeva, D. B., Pedersen, T., Björkman, I., Fey, C. F., & Park, H. J. (2003). MNC knowledge transfer, subsidiary absorptive capacity, and HRM. *Journal of International Business Studies*, 34(6), 586-599.
- Nordhaug, O. (2004). Contributions to an economic theory of human resource management. *Human Resource Management Review*, 14(4), 383-393.
- Osterloh, M., & Frey, B. S. (2000). Motivation, knowledge transfer, and organizational forms. *Organization Science*, 11(5), 538-550.
- Osterman, P. (2000). Work reorganization in an era of restructuring: Trends in diffusion and effects on employee welfare. *Industrial and Labour Relations Review*, 53(2), 179-196.
- Parsons, T., & Smelser, N. J. (1956). *Economy and society*. New Your, NY: Free Express.
- Peters, T., & Waterman, R. (1982). *In Search of Excellence*. New York, NY: Harper Row.
- Powell, T. C. (1995). Total quality management as competitive advantage: A review and empirical study. *Strategic Management Journal*, 16(1), 15-37.
- Quigley, N. R., Tesluk, P. E., Locke, E. A., & Bartol, K. M. (2007). A multilevel investigation of the motivational mechanisms underlying knowledge sharing and performance. *Organization Science*, 18(1), 71-88.
- Randolph, W. A. (1995). Navigating the journey to empowerment. *Organizational Dynamics*, 23(4), 19-32.
- Raudenbush, S. W., & Bryk, A. S. (2002). *Hierarchical linear models: Applications and data analysis methods* (2nd ed.). Thousand Oaks, CA: Sage.
- Robbins, T. L., Crino, M. D., & Fredendall, L. D. (2002). An integrative model of the empowerment process. *Human Resource Management Review*, 12(3), 419-443.
- Roethlisberger, F. J., & Dickson, W. J. (1939). *Management and the Worker*. Cambridge, MA: Harvard University Press.

- Rosenzweig, P. M., & Nohria, N. (1994). Influences on human resource management practices in multinational corporations. *Journal of International Business Studies*, 25(2), 229-251.
- Rosenzweig, P. M., & Singh, J. V. (1991). Organizational environments and the multinational enterprise. *Academy of Management Review*, 16(2), 340-361.
- Santoro, M. D., & McGill, J. P. (2005). The effect of uncertainty and asset co-specialization on governance in biotechnology alliances. *Strategic Management Journal*, 26(13), 1261-1269.
- Seibert, S. E., Silver, S. R., & Randolph, W. A. (2004). Taking empowerment to the next level: A multiple-level model of empowerment, performance, and satisfaction. *Academy of Management Journal*, 47(3), 332-349.
- Seibert, S. E., Wang, G., & Courtright, S. H. (2011). Antecedents and consequences of psychological and team empowerment in organizations: A meta-analytic review. *Journal of Applied Psychology*, 96(5), 981-1003.
- Sieger, P., Zellweger, T., & Aquino, K. (2013). Turning agents into psychological principals: aligning interests of non-owners through psychological ownership. *Journal of Management Studies*, 50(3), 361-388.
- Spencer, D. A. (2013). Barbarians at the gate: A critical appraisal of the influence of economics on the field and practice of HRM. *Human Resource Management Journal*, 23(4), 346-359.
- Strauss, L. and Cropsey, J. (1987). *History of Political Philosophy*. Chicago, IL: Chicago University Press
- Su, Z. X., & Wright, P. M. (2012). The effective human resource management system in transitional China: A hybrid of commitment and control practices. *The International Journal of Human Resource Management*, 23(10), 2065-2086.
- Su Z.-X., Wright P. M. , Ulrich M. D. (2017). Going beyond the SHRM paradigm: examining four approaches to governing employees. *Journal of Management*. In press.  
<https://doi.org/10.1177/0149206315618011>

- Subramony, M. (2009). A meta-analytic investigation of the relationship between HRM bundles and firm performance. *Human Resource Management*, 48(5), 745-768.
- Taylor, F. W. (1911). *The principles of scientific management*. New York, NY: Harper.
- Thorndike, E. L. (1917). The curve of work and the curve of satisfyingness. *Journal of Applied Psychology*, 1(3), 265.
- Trist, E. L., & Bamforth, K. W. (1951). Some social and psychological consequences of the Longwall Method of coal-getting: An examination of the psychological situation and defences of a work group in relation to the social structure and technological content of the work system. *Human Relations*, 4(1), 3-38.
- Tzabbar, D., Tzafrir, S., & Baruch, Y. (2017). A bridge over troubled water: Replication, integration and extension of the relationship between HRM practices and organizational performance using moderating meta-analysis. *Human Resource Management Review*, 27(1), 134-148.
- Vázquez, X. H. (2004). Allocating decision rights on the shop floor: A perspective from transaction cost economics and organization theory. *Organization Science*, 15(4), 463-480.
- Vázquez, X. H. (2006). An eclectic explanation of shop floor control using efficiency and power theories. *Organization Studies*, 27(10), 1421-1446.
- Wall, T. D., Cordery, J. L., & Clegg, C. W. (2002). Empowerment, performance, and operational uncertainty: A theoretical integration. *Applied Psychology: An International Review*, 51(1), 146-169.
- Wall, T. D., Kemp, N. J., Jackson, P. R., & Clegg, C. W. (1986). Outcomes of autonomous workgroups: A long-term field experiment. *Academy of Management Journal*, 29(2), 280-304.
- Wall, T. D., Wood, S. J., & Leach, D. J. (2004). Empowerment and performance. In Cooper, C. L., Robertson, I. T. (Eds.), *International review of industrial and organizational psychology*, (Vol. 19, pp. 1-46). Oxford, London: Wiley.



- Wang, H. C., & Barney, J. B. (2006). Employee incentives to make firm-specific investments: Implications for resource-based theories of corporate diversification. *Academy of Management Review*, 31(2), 466-476.
- Walton R. (1985). From control to commitment in the workplace. *Harvard Business Review*, 63(2), 77-84.
- Waterson, P. E., Clegg, C. W., Bolden, R., Pepper, K., Warr, P., & Wall, T. (1999). The use and effectiveness of modern manufacturing practices: A survey of UK industry. *International Journal of Production Research*, 37(10), 2271-2292.
- Wilkinson, A. (1998). Empowerment: Theory and practice. *Personnel Review*, 27(1), 40-56.
- Williamson, O. E. (1975). *Markets and hierarchies*. New York, NY: Macmillan.
- Williamson, O. E. (1981). The economics of organization: The transaction cost approach. *American journal of sociology*, 87(3), 548-577.
- Williamson, O. E. (1985). *The economic institutions of capitalism*. New York, NY: Macmillan.
- Williamson, O. E. (1991). Strategizing, economizing, and economic organization. *Strategic Management Journal*, 12(S2), 75-94.
- Wood, S. J., Burrridge, M., Rudloff, D., Green, W., & Nolte, S. (2015). Dimensions and location of high-involvement management: Fresh evidence from the UK Commission's 2011 Employer Skills Survey. *Human Resource Management Journal*, 25(2), 166-183.
- Zald, M. N. (2002). Spinning disciplines: Critical management studies in the context of the transformation of management education. *Organization*, 9(3), 365-385.
- Zald, M. N., & McCarthy, J. D. (1987). *Social movements in an organizational society*. New Brunswick, NJ: Transaction.
- Zhu, C. J., Cooper, B. K., Fan, D., & De Cieri, H. (2013). HR practices from the perspective of managers and employees in multinational enterprises in China: Alignment issues and implications. *Journal of World Business*, 48(2), 241-250.

Zhu, C. J., Thomson, S. B., & Cieri, H. D. (2008). A retrospective and prospective analysis of HRM research in Chinese firms: Implications and directions for future study. *Human resource management*, 47(1), 133-156.

## **Chapter 2 (Study 1)**

### **Why firms adopt empowerment practices and how such practices affect firm performance? A theoretical extension**

An earlier version of this chapter has passed through the 1<sup>st</sup> round of peer review at the

***Human Resource Management Review***

This is the revised version under the 2<sup>nd</sup> round of review at this journal

## **Abstract**

Complementing the current management literature's focus on the value-creation side of empowerment practices, this paper offers a transaction cost-exchange perspective to explain why firms adopt empowerment practices and how such practices affect firm performance. Specifically, this study theorizes how performance ambiguity and human asset specificity, two major characteristics of employee-employer exchange, shape firms' decisions to adopt empowerment practices, both independently and interactively. Our model also develops a contingency perspective of how empowerment practices affect firm performance by delineating the moderating role of empowerment practices in the relationship between employee-employer exchange characteristics and firm performance.

**Keywords:** employee empowerment practices, human asset specificity, performance ambiguity, organizational performance, transaction cost economics

## 2.1 Introduction

Over the past three decades, employee empowerment practices have received considerable attention from human resource management (HRM) researchers and practitioners (Evans & Davis, 2005; Ford & Fottler, 1995; Kanter, 1977; Lawler, Mohrman, & Benson, 2001; Maynard, Gilson, & Mathieu, 2012; Robbins, Crino, & Fredendall, 2002; Seibert, Silver, & Randolph, 2004). Empowerment practices often take the form of advanced HRM practices, such as information sharing, autonomy through job boundaries, and team accountability (Seibert et al., 2004) by granting lower-level employees substantial decision-making authority and responsibility with respect to the execution of their job tasks (Wall, Cordery, & Clegg, 2002). These empowerment practices have been identified as a core component of the broader high involvement management practices (HIMP) and high performance work practices (HPWP) (Maynard et al., 2012; Riordan, Vandenberg, & Richardson, 2005).

The general proposition in the literature is that adopting empowerment practices helps firms to better leverage human resources for competitive advantage (Wood et al., 2015, Wright, Dunford, & Snell, 2001) and enhances organizational performance (Comony, 2009, Chenevert & Tremblay, 2009). This is congruent with a burgeoning body of research that has attempted to demonstrate that HIMP and HPWP result in better organizational performance (Wright, Gardner, Moynihan, & Allen, 2005). However, empirical studies have provided mixed evidence for the positive impacts of HIWP and HPWP, such as the influences of empowerment practices on firm performance (Birdi et al., 2008; Combs, Liu, Hall, & Ketchen, 2006; Cappelli & Neumark, 2001; Gibson, Porath, Benson, & Lawler, 2007; Kim & Ployhart, 2014; Staw & Epstein, 2000). The reality is that not all companies adopt empowerment practices and the effect of these practices on organizational performance may not be as large as one would expect (Kaufman, 2015; Wood & Wall, 2007). After years of advocacy, the question of why empowerment practices have not been widely adopted by organizations continues to challenge HRM researchers (Arthur, Herdman, & Yang, 2014; Jackson, Schuler, & Jiang, 2014).

The current literature displays limited understanding about which organizational factors facilitate or hinder the adoption of empowerment practices (Wood et al., 2015). This is partly because the subject has been mainly studied from theoretical perspectives, such as organizational psychology (Maynard et al., 2012; Patel & Cardon, 2010), resource-based view (Jiang et al., 2012; Ostroff & Bowen, 2000), which focus on the value-creation side of the subject and neglect cost considerations. Our view is that while empowerment practices may enhance organizational performance due to the psychological and strategic values they bring to organizations (as discussed later in the literature review), without a sound analysis of the cost efficiencies of such practices, the question of why some firms adopt empowerment practices while others do not remains unsettled.

This study adopts an organizational economics perspective to examine this question. Specifically, this study argues that firms adopt empowerment practices primarily as a mode of work organization to economize on the internal transaction costs of managing employee-employer exchange relationships, which are essentially a type of economic behavior that needs to be studied via a systematic economic analysis. Built upon the basic premise that economizing is more fundamental than strategizing in economic organizations, including work organizations (Williamson, 1999), this paper first develops a transaction cost-exchange approach to examine how major characteristics of the employee-employer exchange influence the adoption of empowerment practices. Second, complementing the existing literature's focus on the direct positive impact of empowerment practices on firm performance, this study develops a more nuanced contingency perspective to delineate how empowerment practices affect firm performance indirectly through moderating the effect of employee-employer exchange characteristics on performance. Answering recent calls to move the field of strategic HRM research forward by borrowing insights and ideas from economics (Kaufman, 2012, 2015), this paper contributes to a richer and more balanced theoretical explanation of why firms adopt empowerment practices, and how such practices affect firm performance.

The rest of the paper is organized as follows. In Section 2.2, this study first provides a definition of empowerment practices and then review the current literature on the determinants and the performance effects of empowerment practices. In Section 2.3, this study draws on key ideas and concepts from transaction cost economics (TCE) and theorize empowerment practices as a mode of work organization for employee-employer exchange relationships. In Section 2.4, this study first identifies performance ambiguity and human asset specificity as two major theoretical constructs of employee-employer exchange relationships that affect the adoption of empowerment practices. This study then develops propositions to explain how these constructs can help us understand why firms adopt empowerment practices and how such practices affect firm performance. In Section 2.5, this study closes with a discussion on the implications of our theoretical model for both research and practice.

## **2.2 Literature Review**

### **2.2.1 Employee empowerment practices defined**

The concept of employee empowerment encompasses a set of progressive and advanced human resources (HR) management practices that transfer considerable decision-making rights and power from higher-level managers to lower-level employees (Kanter, 1977; Lawler et al., 2001). In addition to giving individual employees a high degree of autonomy or control with respect to the execution of their primary work (Ford & Fottler, 1995; Seibert et al., 2004), power is often transferred to teams within the work environment (Robbins et al., 2002). Synthesizing earlier research on this topic (Blanchard, Carlos, & Randolph, 1999; Randolph, 1995; Robbins et al., 2000), Seibert et al. (2004) defined empowerment practices as three interrelated HR practices: information sharing, autonomy through (job) boundaries, and team accountability. In this paper, this study conceives empowerment as a mode of work organization with a coherent bundle of these advanced HR practices that act together to enhance employee involvement in important decision-making.

Information sharing means providing employees with access to potentially sensitive information, such as costs, productivity, quality, and financial performance (Seibert et al., 2004). The sharing of organizational information and knowledge is necessary to enable employees to exercise decision-making power and authority (Robbins et al., 2002) and contribute to organizational performance (Ford & Fottler, 1995). Information sharing can also help establish shared mental models among employees (Combs et al., 2006), which is an important condition for promoting similar attitudes and beliefs regarding job tasks, co-workers, and the organization, and facilitates cooperation and decision making (Cannon-Bowers & Salas, 2001).

Autonomy through boundaries refers to organizational practices that encourage autonomous action, including how work is done, the day-to-day conduct of business, and the tasks and procedures necessary for carrying out jobs (Robbins et al., 2002). It means that employees can enjoy a high level of work autonomy and discretion throughout their entire job scope and are encouraged to develop a clear vision, goals and procedures by themselves to perform their jobs (Seibert et al., 2004). The concept is to be distinguished from the narrower idea of delegation, which refers to a more limited transfer of control over how specific work tasks are performed (Mills & Ungson, 2003). In contrast, autonomy through boundaries entails a broader transfer of power and authority, beyond specific activities, that gives employees a much greater degree of control across many areas of their jobs (Ford & Fottler, 1995).

Team accountability refers to the use of self-managing teams as the basic unit of work organization, and a shift of the locus of decision-making and performance accountability from high-level managers to teams managed by employees themselves (Robbins et al., 2000). Such a shift is accompanied by a substantial transfer of power and authority from higher-level managers to teams. In practice, team accountability means that employees are clustered into work units that are autonomous, entrepreneurial, and engaged in exchange and collaborative relationships designed to achieve organizational goals (Kilduff & Krackhardt, 1994).

It is worthwhile to point out that empowerment practices tend to be viewed as a key component of some broader HRM concepts such as High Involvement Management Practices



(HIMP; Riordan et al., 2005), the High Performance Work Practices (HPWP; Huselid, 1995), and the Productivity Measurement and Enhancement System (ProMES; Pritchard, 1995; Pritchard, Holling, Lammers, & Clark, 2002). These HR systems include a wide range of practices that may or may not require a very high degree of transfer of decision-making authority and rights to lower-level employees. For example, ProMES includes initiatives such as goal setting and feedback systems (Pritchard, Harrell, DiazGranados, & Guzman, 2008). The HIMP and HPWP systems encompass a broad range of HR practices from staffing, training and skill development, and performance appraisals, to compensation (Jackson et al., 2014). Empowerment practices, such as information sharing, autonomy through boundaries, and team accountability, differ fundamentally from these (non-empowerment) HIMP and HPWP practices in that all three empowerment practices involve a high degree of transfer of power and decision-making authority to employees, which is at the core of the concept of empowerment (Robbins et al., 2002).

This study further distinguishes empowerment practices from other related concepts such as employee participation, organic structure and psychological empowerment. First, the level and scope of authority granted to employees distinguishes *empowerment* from *participation*. Participation is viewed as a communication process or technique that solicits and uses employee feedback in decision-making processes (Roberts & O'Reilly, 1979; Vroom & Jago, 1988). In contrast with empowerment, employee participation means that employees may have the opportunity to participate but they do not have the authority to make decisions (Mills and Ungson, 2003).

Empowerment practices are also different from the construct of organic structure, which is a form of organizational structure encompassing dimensions of the entire firm, such as centralization and departmentalization. An organic structure is flexible and loose, and is the antithesis of a bureaucratic structure, which features hierarchy and rigid rules and regulations (Burns & Stalker, 1961). Empowerment practices are HRM practices that can be used by both

organically structured and bureaucratically structured firms. In other words, empowerment practices represent a type of work system rather than a type of firm structure.

Last but not least, a clear distinction needs to be made between empowerment as actually experienced by employees and the practices that firms use to foster employees' feelings about empowerment. The former is associated with the concept of psychological empowerment, which refers to employees' inner perceptions of being empowered (Spreitzer, 1995; Thomas & Velthouse, 1990) and is often manifested as individuals' reactions to empowerment practices (Seibert, Silver, & Randolph, 2004). This study, however, focuses on empowerment as a set of HR practices, which are regarded as organizational tools that lead to an employee's psychological feeling of empowerment (Seibert, Silver, & Randolph, 2004).

### **2.2.2 Determinants and performance consequences of employee empowerment practices**

Most literature explains why firms adopt empowerment practices through theoretical perspectives pertaining to benefits or value-creation. These include organizational psychology and resource-based view (RBV) (Jackson, Schuler, & Jiang, 2014).

From an organizational psychology perspective, empowerment practices have positive effects on organizational performance because they elicit positive attitudes and behaviors from employees (Riordan et al., 2005). Granting employees the power to perform their tasks enhances their motivation, job satisfaction, organizational commitment and social exchange relations (Maynard et al., 2012; Patel & Cardon, 2010). When these psychological benefits promote employees' work efforts collectively, firm performance improves (Birdi et al., 2008). This perspective explains why firms adopt empowerment practices by highlighting how such practices bring psychological and behavioral benefits to employees, which in turn creates value for firms.

Guided by the RBV (Barney, 1991), the strategic HRM perspective focuses on addressing the question of why firms adopt empowerment practices by examining the strategic value such practices bring to firms' most important assets—human resources (Jiang et al., 2012).

According to this perspective, firms adopt empowerment practices because they promote employees' knowledge, risk-taking and commitment (Delery, 1998; Jackson, Schuler, & Rivero, 1989; Ostroff & Bowen, 2000). These factors are firm-specific and difficult to imitate and, hence, will bring long-lasting value to organizations (Kaufman, 2012). In particular, empowerment practices enhance firms' human capital by offering opportunities for employees to make full use of their knowledge and abilities (Riordan et al., 2005), as well as gain new knowledge and skills (Jiang et al., 2012). As human capital is one of the most important types of firm resources (Barney, 1991), empowerment practices have positive impacts on firm performance by providing firms with a major source of sustainable competitive advantage.

In addition, the current literature recognizes that the positive effect of empowerment practices on organizational performance may be limited by contextual factors, including industry (Combs, et al., 2006; Datta et al. 2005), firm size (Snell & Youndt, 1995), firm strategy (Wall et al., 2002), and environmental uncertainty (Pritchard et al., 2008). This study agrees that examining such moderating factors can advance our knowledge of the indirect influence of empowerment practices on firm performance (Tzabbar, Tzafrir, & Baruch, 2017). However, below in the remainder of the paper, this study also suggests that our understanding of the indirect influence of empowerment practices can be deepened by examining how empowerment practices act as a boundary condition of the relationship between employee-employer exchange characteristics and firm performance. In other words, empowerment practices can also influence the organizational performance indirectly through moderating the relationship between the nature of employment relations and firm performance.

A point should also be made to clarify what this study means by firm performance. In HRM literature, firm performance often refers to organizational-level absolute performance (Datta, Guthrie, & Wright, 2005; Huselid, 1995; Jackson et al., 2014). This is in contrast with how performance is viewed by most strategy scholars, who tend to focus on a firm's relative performance to competitors (Ployhart & Hale, 2014). To be consistent with the HR literature, this research views firm performance as organizational-level absolute performance, which itself

is a multidimensional concept and different dimensions are relevant to different stakeholders (Crook et al. 2008). Ployhart and Hale (2014) draw a distinction between performance dimensions internal and external to a firm. They use the term operational performance to describe performance dimensions that are internal to a firm and that are based on such outcomes as collective employee performance (Jackson & Schuler, 1995) and workforce productivity (Birdi et al., 2008). Firm performance can also be external to a firm and is based on accounting, financial, and product market outcomes (Richard et al., 2009). Previous studies show performance dimensions internal to a firm, such as workplace productivity, may serve as a link between HRM practices and a firm's performance dimensions external to a firm, such as financial outcome (Birdi et al., 2008; Datta et al., 2005). Therefore, in our subsequent theory and proposition development, this research will use an overarching construct of organizational performance, which encompasses absolute performance dimensions both internal and external to a firm.

In summary, empowerment practices have been studied from theoretical perspectives that share a common interest in understanding the benefits or values brought by such practices. Consequently, there is an implicit but strong assumption that empowerment practices can enhance firm performance through psychological and strategic benefits, irrespective of the firm's characteristics (Wood, et al., 2015). The focus on the benefit or value-creation side of the subject has contributed to the lack of knowledge of the subject from a cost-efficiency perspective (Kaufman, 2012, 2015). Following the value-creation logic, it should be expected that more firms will adopt empowerment practices. However, there is no evidence of an increasing number of firms doing so (Arthur et al., 2014; Kaufman, 2015). Recognizing this problem in the literature, Kaufman and Miller (2011) recently invoked microeconomics to argue that firms keep investing in empowerment and other HRM practices until the marginal revenue gained equals the marginal costs incurred. Such a microeconomics approach, however, assumes that employers and employees are rational decision makers, and is not well suited for

analyzing the structural factors associated with market failure in employment relations (Arthur et al., 2014).

This research argues that the determinants and consequences of empowerment practices can be usefully analyzed from the perspective of organizational economics, which provides an alternative theoretical framework for identifying the most prominent structural factors associated with market failures in employment relations. Such factors give rise to transaction costs in employee-employer exchanges and empowerment practices emerge as a model of work organization due, fundamentally, to the need to reduce transaction costs in employee-employer exchange relations. In the next section, this study develops a transaction costs and exchange-based model to explain why firms adopt empowerment practices and how such practices impact on firm performance.

### **2.3 Empowerment Practices as a Mode of Work Organization**

Recently, a number of authors (Kaufman, 2012, 2015; Kaufman and Miller, 2011) argued that theoretical advancement in the field of HRM can be substantially strengthened by introducing key concepts and ideas from economic theories. In particular, transaction cost economics has been identified as highly relevant to strategic HRM research (Vázquez, 2004), but its application to the study of empowerment practices remains rudimentary. Wall et al. (2002) briefly discussed the potential contribution that TCE can make to the study of empowerment, but fell short of providing a thorough TCE-based analysis of the subject. This study chooses TCE as the theoretical lens to complement the management literature's focus on the value-creation side of empowerment practices.

Transaction cost economics, as pioneered by Coase (1937) and formally developed by Williamson (1975, 1985), provides a comparative contracting approach to assess the efficacy of alternative ways of organizing (or *contracting*, in Williamson's terms) different types of transactions or exchanges. The concept of transaction costs is defined broadly, and includes any

costs incurred by information searching, negotiation and enforcement of contract during an economic exchange.

In the context of employee-employer relations, a transaction or an exchange occurs when “each individual gives something of value (for example, labor) and receives something of value (for example, money) in return” (Ouchi, 1980, p. 130). In markets, exchange is coordinated by price mechanisms. But in firms, employee-employer exchanges are governed by employment relations. An employee is assigned a job by the employer and earns wages in exchange for accepting the employer’s authority and right to direct and monitor the employee’s work (Ouchi, 1980). Although manifested as a form of exchange distinct from discrete market transactions, employee-employer exchange, in essence, is one form of economic exchange and provides the basis for TCE analysis.

An economic analysis of the determinants of empowerment practices requires a comparison of such practices against alternative modes of work organization. In employment relations, the most salient alternative mode to empowerment practices is the conventional authority mode, which grants employers the authority and power to closely monitor, evaluate and direct employees’ activities (Williamson, 1975). In comparison to empowerment practices, the authority mode is a “non-advanced” approach toward employment relations characterized by a transactional and low-commitment relationship between the employer and the employee. The main benefit of the authority mode of work organization is the level of efficiency derived from the high degree of organizational control afforded to managers. However, such a mode incurs transaction costs as it requires the employer to possess sufficient information about employees’ performance to organize and control their work activities efficiently (Ouchi, 1980). Yet, in practice, knowledge or information about employees is typically dispersed among organizational members, whereby transaction costs are incurred when searching, identifying and evaluating the information necessary to make decisions (Milgrom & Roberts, 1992).

In addition, Jones (1983, 1987) posited that the costs of the authority mode of work organization could arise from activities related to coordinating organizational members’ work

of different natures. Thus, in this mode of organizing, transaction costs are caused by both information and coordination problems. When such costs become prohibitively high, the conventional authority mode becomes inefficient and the employer (or managers) will have to seek an alternative way of organizing employment relations to overcome information and coordination problems and direct employees' work. Under such circumstances, empowerment practices may emerge as a mode of work organization to economize on the transaction costs of employee-employer exchanges and become a viable alternative to the traditional authority mode that relies heavily on the power and authority of the employer (or managers).

It should be noted that empowerment practices could be studied at the job level (Delery, 1998; Tsui et al., 1997). However, the current HR literature is primarily concerned with the influence of empowerment practices on firm performance (Combs, et al., 2006; Tzabbar et al., 2017; Wall et al., 2002). By focusing on the job level, researchers fail to capture the full range of changes in the division of labor and how empowerment practices as a mode of work organization affect the economic efficiencies of the firm as a whole (Batt, 2001). In this paper, therefore, this study will focus on the firm-level analysis. This study does so by focusing on a company's core employees to examine the empowerment practices-performance relationship. The notion of core employees refers to the largest group of non-supervisory, non-managerial workers who are directly involved in making the product or providing the service for the firm, such as computer programmers in a software company or sales employees in an insurance company (Osterman, 1994). Previous research on the adoption of work practices, such as job rotations and quality circles, for example, has used core employees as the unit of analysis because it is not practical to analyze data from all different job families (Osterman, 1994). This research views empowerment practices used by the firm to structure the exchange relationship between core employees and the employer at the firm level.

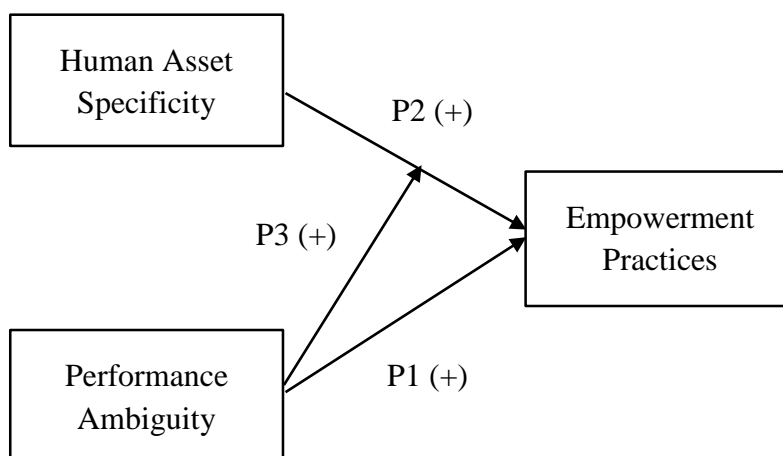
In the next section, this study takes the firm-level employee-employer exchange as the unit of analysis to examine how the two major TCE constructs, which characterize the nature of employee-employer exchange relations, shape firms' decisions to adopt empowerment

practices and how these employee-employer exchange characteristics interact with empowerment practices in affecting firm performance.

## 2.4. Theory and Proposition Development

### 2.4.1 Determinants of empowerment practices

Within TCE, performance ambiguity and human asset specificity have been identified as the two major characteristics of employee-employer exchange that will determine the level of transaction costs in work organization (Williamson, 1985), which will in turn shape firms' choice of different types of employment relations and subsequent firm performance. Below, this study first hypothesizes about the ways in which they determine the adoption of empowerment practices (Figure 2.1) and then in Section 2.4.2 this study theorizes how such exchange characteristics interact with empowerment practices in affecting firm performance.



**Figure 2.1. Human asset specificity, performance ambiguity, and empowerment practices: A transaction costs-exchange perspective**

Performance ambiguity pertains to the extent to which the employer can easily evaluate and measure employees' performance on their job tasks. Two sources of performance ambiguity are identified in the literature—technological nonseparabilities, and requirements of initiative and judgment (Williamson, 1985). First, technological nonseparabilities refer to the



interdependence of relations among employees, whereby the failure of one employee to complete his/her work will cause great loss to others (Alchian & Demsetz, 1972). When the jobs or tasks assigned to different employees are closely linked to each other, it would be difficult to measure and monitor employees' performance. Second, high performance ambiguity also arises when employees' jobs and tasks require individuals to exercise a high degree of initiative and judgment (Russell, 1985). When substantial judgment is needed to fulfill job duties, employee performance becomes ambiguous and difficult to measure. These two sources of performance ambiguity have important implications if empowerment practice is to emerge as a more efficient alternative to the authority mode for organizing employee-employer exchange relations.

First, when performance ambiguity is low, the employer will face low transaction costs problem in searching and identifying relevant information about employees' performance. In addition, as performance ambiguity often arises from task interdependence, low performance ambiguity denotes that employees work relatively independently. Under such circumstances, the authority mode of work organization is feasible as employers can direct and monitor individual employees' activities at a low cost. Employers can compare their employees' work conditions with other employers to ensure that their employees receive fair pay and conditions. As a result, there is no strong need for sharing information.

Similarly, under the condition of low performance ambiguity, employees will also face little transaction costs problem in establishing whether they have received fair treatment from employers, as the labor market provides sufficient information for comparison. Accordingly, it is not imperative for employees to have more autonomy or decision-making rights. Instead, employers may be better able to allocate jobs to employees, and direct and coordinate largely independent work activities in a way that is conducive to the improvement of firm performance. It follows that the nature of such employment relations may render the extensive use of self-managing teams counterproductive.

Indeed, the adoption of empowerment practices also entails transaction costs. For example, there are costs involved in providing extensive training to develop employees' decision-making abilities to better use their delegated authorities (Cappelli & Neumark, 2001). There are costs associated with the socialization process needed to establish a shared organizational culture for promoting employees' commitment to the empowerment practices as well as for providing employees with clear expectations regarding how empowered employees should behave (Mills & Ungson, 2003). Setting up a proper communication process to transfer information from the employer to the employees also incurs transaction costs (Kim, 2005).

Introducing empowerment practices will attract more such costs than benefits, especially when organizing largely independent tasks, the performance outcomes of which are easily observable and measurable. Similarly, employees do not have strong incentives to work as a team as they can complete their work individually. Forcing them into teams may result in productivity losses instead of gains. Consequently, low performance ambiguity means that the transaction costs involved in empowerment practices may outweigh the transaction costs in using the authority mode of work organization; it also implies that the costs of using such advanced HR practices may be greater than the potential gains.

Second, when performance ambiguity is high, an employment contract that stipulates the rights and responsibilities of employees will be difficult to draft and enforce. The void created by such an incomplete contract can be filled with the authority afforded to employers, and they can exercise their discretionary power to carry out such employment relations. But employees are likely to resent such managerial coercion and engage in opportunistic shirking in their jobs (Barringer & Milkovich, 1998; Jensen & Meckling, 1992) or quality shading by providing perfunctory performance instead of consummate performance (Fehr, Hart, & Zehnder, 2009). In addition, performance ambiguity means it is difficult for employers to search and collect information related to employees' work activities. Consequently, it will be hard for employers to detect and control employee opportunism based on authority.

In addition, high performance ambiguity often arises from the interdependent nature of work (e.g. new product development), which requires employees to coordinate with each other constantly while exercising initiative and judgment in their own work. The traditional authority mode of work organization cannot meet such requirements, as it will result in managers micro-managing a large number of interdependent work activities of which they may have very little knowledge. In such situations, relying on managerial authority or fiat will contribute to high internal transaction costs of searching, collecting and monitoring information related to employees' work.

As an alternative system of work, empowerment practices provide a solution to transaction cost problems by transferring a range of decision-making authorities to employees through mutual agreement between employers and employees. For employees, high performance ambiguity makes it difficult to compare their work with others in the external market. Hence, they may demand more decision-making rights to ensure that they have control over their work and to avoid employer opportunism (Vázquez, 2004). For employers, granting decision-making power to employees reduces the need for identifying, collecting and evaluating a large amount of information related to work performance. To facilitate the effective transfer of decision-making rights, it is necessary to share information about the firm's vision and performance with employees, so that employees can make decisions congruent with the firm's goals.

Finally, as high performance ambiguity also arises from the interdependent nature of work, empowerment practices, such as the establishment of self-managing teams, allow employees to gather relevant information from teammates and prompt employees to work as teams, which reduces communication and coordination costs. Reliance on team authority and accountability when carrying out interdependent tasks also enhances individual feelings of competence and influence on firm performance (Kirkman & Rosen, 1999). Compared to the authority mode, which relies heavily on a handful of executives/managers to direct work, self-managed work teams that have better information sharing and greater autonomy and authority should be able to make better decisions (Seibert et al., 2004). Under conditions of high performance ambiguity,

therefore, the authority mode of work organization becomes ineffective and the alternative mode of empowerment practice tends to emerge.

Proposition 1: The higher the degree of performance ambiguity, the more likely that empowerment practices will be adopted by firms.

Asset specificity is another key TCE construct that shapes the organizational arrangements for economic exchanges. Among the different forms of asset specificity described by Williamson (1985), human asset specificity is the most relevant in the context of employee-employer exchanges. Human asset specificity refers to the specialized knowledge, skills, and working relationships an employee gains through work experience in a particular company (Williamson, 1979, 1985). Such skills and knowledge arise in a learning-by-doing fashion and create specific, rather than general, human capital (Anderson, 1985), and hence are more valuable inside a particular employment relationship than outside it (Vázquez, 2004). A classic example is the extensive training and experience needed for IBM salespeople to learn the IBM sales method, the IBM corporate culture, and the unique features of IBM products, as well as to form and deepen essential working relationships in such a large, complex bureaucracy (Anderson, 1985).

Human asset specificity in the form of firm-specific knowledge and skills is to be distinguished from employee-specific knowledge and skills (Russell, 1985), which are tied to individual employees and can be equally useful to other employers. For example, during their work, sales employees may develop valuable knowledge of and personal ties with clients; but these knowledge and skills are often tied to individual sales employees, especially when the customer loyalty to a salesperson arises and the identity of a salesperson matters to the customer (Anderson, 1985). A salesperson can develop such customer-specific knowledge and skills but they are not tailored to any particular employer, which makes such assets general rather than specific human capital.

It should also be noted that firm-specific knowledge and skills take a set of underlying abilities to develop, and these capabilities are likely tied to employees and may be valued by other firms. However, this is a theoretically different discussion from the classical TCE concept of human asset specificity. This study distinguishes firm-specific knowledge and skills from the ability to acquire such knowledge and skills (Coff & Kryscynski, 2011) and follow Williamson's notion of human asset specificity, which refers only to those firm-specific knowledge and skills employees gain from their learning by doing within a company, such as salespeople's intimate knowledge of the IBM Company and the company's products.

When human asset specificity is low, employees' job tasks require a low level of firm-specific knowledge and skills. Since such knowledge and skills can be utilized to perform the same or similar tasks in other firms, the transaction costs of switching to alternative employers or employees are low. When employers are not satisfied with the performance of particular employees, they can replace them with others that have the same set of non-specialized knowledge and skills. Meanwhile, employees can also find other jobs with their generic knowledge and skills. Neither employers nor employees have the incentive to invest time and resources in sharing information and decision-making rights.

In addition, employers may not be interested in establishing self-managing teams, because efficient self-managing teams require employees to have in-depth understanding of fellow workers' aptitudes, abilities, strengths and idiosyncrasies (Ahmad & Schroeder, 2003), which is a type of tacit and firm-specific knowledge and which requires costly investment to develop. As discussed earlier, the use of empowerment practices also entails transaction costs in areas such as extensive training for employees with respect to how to use the allocated authority, the socialization process that promotes employees' commitment to empowerment practices, and communication costs associated with transferring information from the employer to the employees (Kim, 2005; Mills & Ungson, 2003). Investing in empowerment practices will only be justified if parties expect to be tied together due to the firm-specific knowledge and skills developed in the course of the employer-employee exchange. When human asset specificity is

low, however, the employee-employer exchange resembles an arm's-length contractual relationship (Williamson, 1985) and the transaction costs involved in the use of empowerment practices will outweigh the costs of using the authority mode of work organization, which will be an efficient, low-cost means of governing the exchange relationship under such circumstances.

When human asset specificity is high, on one hand, employee mobility is limited because employees have invested in knowledge and skills that are tailored to a particular employer and that are of little value to other employers. From a psychological contract point of view, employees' investment in highly firm-specific knowledge and skills represents substantial commitments to a particular employer with the expectation that such commitments will be reciprocated with job security and/or high pay (Rousseau, 1995). But, psychological contracts are fundamentally an individual's belief regarding reciprocal obligations, and the violation of psychological contracts do occur, either because employers hold different views of the existence and terms of a psychological contract or because of employer opportunism (Rousseau, 1990).

On the other hand, human asset specificity also makes employers vulnerable to employees possessing firm-specific knowledge and skills, as employers will find it hard to replace such employees, thus creating a mutual holdup situation (Williamson, 1975). To protect their investment in firm-specific human assets, employees may use this bargaining power to negotiate with employers for greater access to firm information, more decision-making rights, and greater power (Brown, Gianiodis, & Santoro, 2015).

From the employer's perspective, human asset specificity increases potential shirking behavior from employees and, when coupled with bounded rationality, human asset specificity also means that it will be very difficult to specify all the contingencies of future exchange relationships in a standard employment contract where the employee accepts the employer's authority in return for payment. In such situations, firms will find it more costly to use the

authority mode to collect information related to work, and to monitor employees' behavior and conduct in their work activities.

Firms will also find that the costs arising from training, socialization, or communication for the purpose of empowering employees are relatively lower than the costs of monitoring employees by using their authorities. In other words, within an employment relationship characterized by high human asset specificity, employers are also more willing to negotiate with employees a more sophisticated arrangement of work practices than relying on traditional employment contracts that are more costly in design and less effective in implementation. It is also a strategy for managing the threat of turnover, as it makes employees more satisfied and willing to stay (Coff, 1997). From a psychological contract point of view, empowerment practices are more likely than a traditional employment contract to give rise to the beliefs in mutual obligation, commitment, and reciprocity, especially when human asset specificity is high. Therefore, empowerment practices are more likely to be favored by firms when human asset specificity is high.

Proposition 2: The higher the degree of human asset specificity, the more likely empowerment practices will be adopted by firms.

Transaction cost economics predicts that the two characteristics of the employee-employer exchange exert not only independent influences on the adoption of empowerment practices, but may also interact in shaping such decisions. Specifically, this study argues that performance ambiguity will increase the likelihood of empowerment practice adoption under conditions of human asset specificity. First, when performance ambiguity is high, the positive link between human asset specificity and empowerment practice adoption is stronger. This is because high performance ambiguity means that the employer will have no reliable information for detecting and mitigating employee opportunism through the design of employment contracts that stipulate employee performance. Under such circumstances, human asset specificity poses a

greater threat to the viability of the authority mode of work organization due to the high costs of terminating employment relationships. In other words, high performance ambiguity makes it more difficult to monitor employees' work and increases the appropriation hazards of human asset specificity. To make the employee-employer exchange relationship work, it becomes imperative to transfer a substantial degree of decision-making power and authority to employees in order to incentivize their commitment/investment in firm-specific human capital. Embracing practices such as 'autonomy through boundaries' and 'team accountability' can release both employers and employees from engaging in costly haggling and monitoring of each other's activities. Thus, performance ambiguity will strengthen the positive effect of human asset specificity on the adoption of empowerment practices.

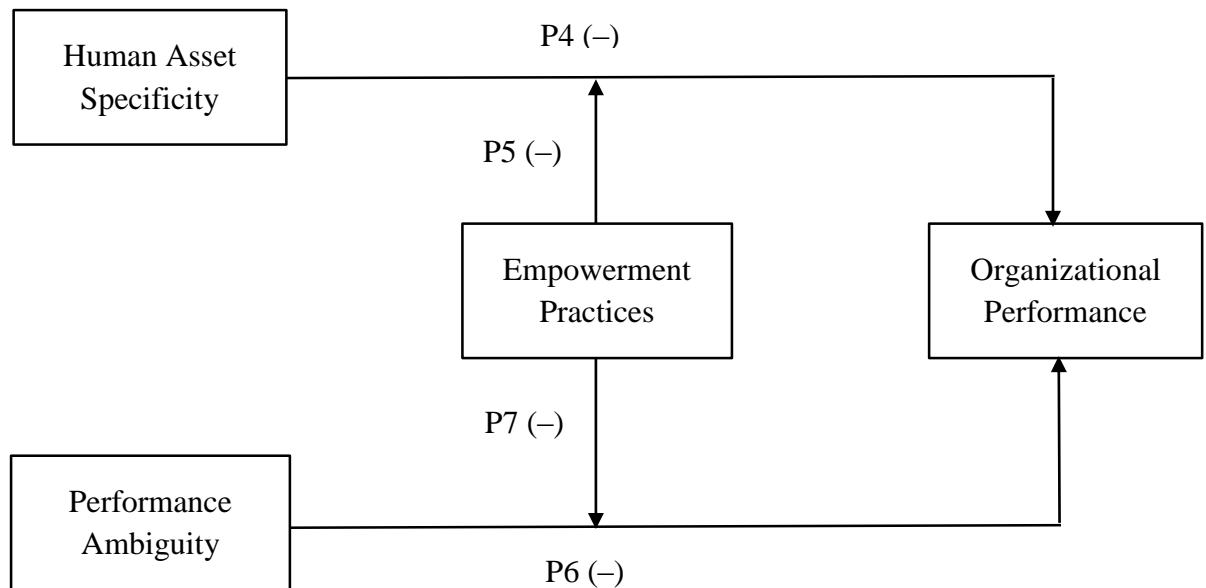
Second, when performance ambiguity is low, the positive link between human asset specificity and the adoption of empowerment practices is likely to be weaker. Low performance ambiguity means a clear measure of employee performance can be established, thus discounting the threat of opportunism associated with human asset specificity. To the extent that employees and employers can reach mutual agreements on what constitutes good or bad performance, and how good performance can be rewarded and bad performance punished, an authority mode of work organization is conceivable and empowerment practices may be unnecessary. In other words, when performance ambiguity is low, it is likely that an authority mode can efficiently manage employment relations, even if there is a high degree of human asset specificity.

**Proposition 3:** Performance ambiguity moderates the relationship between human asset specificity and the adoption of empowerment practices such that the positive effect of human asset specificity on the adoption of empowerment practices is likely to be stronger when performance ambiguity is high than when it is low.



#### 2.4.2 Employee-employer exchange characteristics, organizational performance, and the role of empowerment practices

TCE suggests that employee-employer exchange characteristics not only affect the adoption of empowerment practices but also have implications on organizational performance through increased transaction costs. To mitigate the transaction cost problem, firms may use empowerment practices to address the performance losses caused by performance ambiguity and human asset specificity. It is also possible that human asset specificity can lead to performance gains and that empowerment practices can be used to strengthen such gains. Here, this study develops a contingency perspective of the relationship between empowerment practices and firm performance by delineating how empowerment practices moderate the effect of employee-employer exchange characteristics on firm performance, as illustrated in Figure 2.2 below.



**Figure 2.2. Empowerment practices as a moderator of the link between human asset specificity, performance ambiguity, and organizational performance**

#### 2.4.2.1 The effect of human asset specificity on organizational performance and the moderating role of empowerment practice

TCE suggests that human asset specificity may pose a negative effect on organizational performance due to the high probability of opportunism (Williamson, 1975). Because firm-specific assets are of less value when they are deployed in alternative transactions outside the focal firm, both parties to the transaction or exchange may have the incentive to act opportunistically to expropriate returns from the specialized assets (Carson, Madhok, & Wu, 2006). If one party holds up the other party by ex post bargaining or threats of termination, the other party will suffer and may cease exchange relationships (Klein, Crawford, & Alchian, 1978). Thus, asset specificity is regarded as detrimental to organizational performance.

In the context of employment relations, human asset specificity poses a great threat to the employee-employer exchanges when one side or both parties try to hold up the other through ex post bargaining (Brown, Gianiodis, & Santoro, 2015; Coff, 1997). Two possible consequences follow. First, firms may suffer from unwanted employee turnover when the contractual relationship between employer and employees is broken and terminated. Second, firms may incur higher monitoring costs. This is because the more specific the human assets, the less complete the employment contracts and the more costly the interventions required from the management hierarchy (Menard, 1997). In either case, firm performance will be compromised. Thus, it is expected that human asset specificity will reduce organizational performance:

**Proposition 4: Human asset specificity is negatively related to organizational performance.**

Due to the negative effect of human asset specificity on organizational performance, empowerment practices are adopted to mitigate this negative effect. It is expected that empowerment practices can weaken the negative impact of human asset specificity on firm performance. For firms that adopt empowerment practices, the problems of potential turnover

due to human asset specificity might be alleviated. This is because empowerment practices give rise to a feeling of psychological ownership that promotes employees to think and act as the owner of the firm (Pierce & Furo, 1991). Psychological alignment of employees' and the employer's interest will relieve the threat of opportunistic turnover (Sieger, Zellweger, & Aquino, 2013).

Second, empowerment practices involve the transfer of decision-making authority to self-managed teams rather than individuals. Management research on teams has demonstrated that such advanced HR practices can mitigate the problem of opportunism through incentivizing employees within self-managed groups to establish norms among themselves about how to work together and how to set up boundaries between individual employees and groups around issues of intimacy and authority (Ancona, 1990; Dyer, 1977). By promoting such group cohesiveness, empowerment practices effectively serve as a cultural check on opportunism (Williamson, 1985) and foster a relational contract based on reciprocal obligations between employers and employees (Rousseau, 1990), without the need to resort to internal hierarchy for mitigating the transaction cost problem associated with human asset specificity. From an external perspective, such teams can respond to external market demands more quickly and effectively and contribute to better organizational performance (Ancona, 1990). Thus, research on teams corroborates the TCE argument on the ability of empowerment practices to weaken the negative impact of human asset specificity on firm performance.

However, for firms that do not adopt empowerment practices, the nature of their employment relations is more likely to be characterized by transactional contracts, which is based on arm's length monetizable exchanges between employers and employees (Rousseau, 1990). In the absence of long-term obligations and commitments, employers will find it difficult to effectively control the potential employee opportunism and potential turnover (Gunderson, 2002). As a result, such firms may suffer from a higher level of internal transaction costs in managing employee-employer exchange relationships (Nordhaug, 2004), and the negative

effect of human asset specificity on organizational performance will be more pronounced in such firms. Based on the above discussion, it is suggested that:

Proposition 5: Empowerment practices weaken the negative relationship between human asset specificity and organizational performance such that the negative relationship between human asset specificity and organizational performance will be weaker in organizations adopting empowerment practices than those not adopting empowerment practices.

#### 2.4.2.2 The effect of performance ambiguity on organizational performance and the moderating role of empowerment practices

With regard to the relationship between performance ambiguity and organizational performance, the theoretical implications of TCE are relatively straightforward – performance ambiguity has a negative impact on performance. When individual employees' contributions are difficult to discern, there is a high degree of information asymmetry between employees and employers (Alchian & Demsetz, 1972). Moral hazard may arise as employees may act opportunistically to shirk on their jobs, and it is difficult for the employer to collect work-related information and monitor the employee's actions (Jensen & Meckling, 1976). Moral hazard may also arise when employees attribute success at work to themselves and blame failure on other employees (Eisenhardt, 1989). Consequently, performance ambiguity will lead to substantial information costs, which will in turn have a negative effect on performance.

Management literatures also reach the same conclusion on the negative relationship between performance ambiguity and firm performance. For example, research on teams suggests that performance ambiguity may result in a propensity to withhold effort on the part of employees because employees may have limited understanding of how their job performance contributes to the organizational performance (Gladstein, 1984; Kidwell & Bennett, 1993). Performance ambiguity can also contribute to the problems of free riding (Albanese & Van Fleet, 1985) and social loafing in groups, which refers to employees' tendency to reduce effort

when working collectively compared with individually on the same task (Williams & Karau, 1991). In addition, as employers cannot establish clear performance-based rewards, performance ambiguity may lead to a low degree of expectancy and generate a low degree of employee motivation to contribute to the organization (Vroom, 1964). Thus, the current management literature supports the TCE prediction:

**Proposition 6:** Performance ambiguity is negatively related to organizational performance.

The adoption of empowerment practices can weaken the negative influence of performance ambiguity on organizational performance as practices like information sharing, autonomy through boundaries, and team accountability can reduce employees' incentive to engage in shirking behavior and promote employees' motivation to contribute to their organization. In the absence of empowerment practices, organizations relying exclusively on managerial power face limited resources to detect and deter employees' opportunistic behavior (Coff, 1997). As a result, greater internal monitoring costs will have to be incurred when managing employment relations.

When organizations adopt empowerment practices, employees will have greater access to company information that was previously available only to senior managers, and they will also enjoy greater autonomy and discretion over how they perform their jobs (Wall et al., 2002). The result is often that employees will have a strong sense of ownership of the firm and tend to think and act as the owner of the organization (Pierce, Kostova, & Dirks, 2001). In such employer-employee exchanges, a psychological contract involving reciprocal obligation and mutual commitment tends to emerge (Rousseau, 1990, 1995), and employees will be much less likely to shirk from responsibilities or to withhold work-related information that has implications for firm performance (Coff & Kryscynski, 2011). Thus, empowerment practices can weaken the negative effect of performance ambiguity on organizational performance by

mitigating the substantial transaction costs associated with employee opportunism and by bonding employees and the employer together psychologically. Therefore, this study proposes:

Proposition 7: Empowerment practices weakens the negative relationship between performance ambiguity and organizational performance such that the negative relationship between performance ambiguity and organizational performance will be weaker in organizations adopting empowerment practices than those not adopting empowerment practices.

## **2.5 Discussion and conclusion**

Complementing the current management literature's focus on the value-creation side of empowerment practices, this paper offers an alternative transaction cost-mitigation perspective to explain why firms adopt empowerment practices and how such practices affect firm performance. This paper represents the first attempt to systematically develop a transaction cost-exchange perspective of empowerment practices with both theoretical and practical implications.

### **2.5.1 Implications for research**

First, answering the calls to use economic theories to advance the field of strategic HRM (Kaufman, 2012, 2015), this study builds a theoretical model that highlights economic efficiency as an important but under-studied driver for empowerment practices. This transaction cost-mitigation perspective does not mean that this study views efficiency considerations as the only motivations for adopting empowerment practices. It simply means that this study believes such considerations, based on a solid TCE analysis, offer a useful alternative to the current management literature, which draws on theoretical perspectives pertaining to various value-adding aspects of empowerment practices. The paper thus joins the previous research on empowerment practices to enrich the literature with a more balanced understanding of the topic.

Second, our model also provides a stronger theoretical foundation for the reasons why the adoption of empowerment practices generally improves firms' performance. The existing literature has examined this question by focusing almost exclusively on the value-adding aspects of empowerment practices. This study adds to the literature by offering a transaction cost-mitigation explanation. Specifically, this study develops a contingency perspective to demonstrate that empowerment practices can be used to weaken the negative effect of human asset specificity and performance ambiguity on firm performance. Thus, our model reveals the previously under-theorized complex joint effects of empowerment practices, human asset specificity, and performance ambiguity on firm performance.

Third, the paper extends the TCE analysis to the internal organization of firms. While TCE has been widely employed to explain inter-organizational transactions, thus far, it has received relatively little attention in the context of intra-organizational transactions, such as employee-employer exchanges. Several scholars have claimed that the emphasis of TCE on opportunism and hierarchical control limits its application and generalizability to contemporary firms characterized by high levels of employee involvement (Aoki, 1989; Ghoshal & Moran, 1996; Spencer, 2013). This research challenges this view and demonstrates that TCE is a useful tool for analyzing internal empowerment practices in organizations. Primarily concerned with coordination problems between trading parties in external markets, conventional TCE wisdom is that the more specific the human assets, the more control needed to reduce the transaction costs associated with *ex ante* negotiation and *ex post* monitoring in market exchange relationships. Instead, this study argues that, within the internal organization of a firm, the more specific the human assets, the less effective the discrete interventions from managers/employers will be for a number of reasons. First, managers will find it difficult to police and direct work activities that are of a highly specialized nature. Second, employees with highly specialized knowledge and skills are hard to replace and hence possess stronger bargaining power. Third, such employees often desire a strong sense of ownership toward their work, making the authority mode of work organization counterproductive, as it undermines the incentive structure desired

by highly trained and specialized employees. In other words, the consideration of the internal transaction costs of monitoring and negotiation leads to the choice of more substantial transfer of decision-making power and authority in the presence of highly specialized human assets. Consequently, empowerment practices will be the preferred mode of work organization to economize on such transaction costs in employment relations.

### **2.5.2 Implications for practice**

Kaufman (2012) argues that using an economics-based theoretical framework to study HR topics can offer an actionable set of managerial principles based on solid economic logic and predictive power. This research argues that such an economic way of thinking complements (rather than substitutes for) the existing management literature and provides managers with a more balanced view towards their decision-making regarding the adoption of empowerment practices. First, both academics and practitioners have advocated empowerment practices as the “best practice” for enhancing employee productivity (Evans & Davis, 2005) and firm performance (Maynard et al., 2012). Yet, despite their many psychological, motivational and strategic benefits, empowerment practices as a mode of work organization are not without costs. The use of empowerment practices entails transaction costs, from extensive training for employees with respect to how to use the allocated authority, and setting up socialization processes that promote employees’ commitment to empowerment practices, to communication costs associated with transferring information from the employer to the employees (Kim, 2005; Mills & Ungson, 2003). Managers should choose to use empowerment practices over the traditional authority mode of work organization only when the transaction costs of using such practices are lower than the transaction costs caused by performance ambiguity and human asset specificity, including the costs associated with searching and identifying employees’ work performance information, costs of monitoring employees’ work activities, and the bargaining costs to expropriate returns from the specialized human assets (Brown, Gianiodis, & Santoro, 2015; Vázquez, 2004),



Second, our theory delineates how empowerment practices can contribute to organizational performance through moderating the effect of employee-employer exchange characteristics on firm performance. Specifically, the second part of our model (Figure 2.2) suggests that empowerment practices can be instituted to effectively alleviate employees' opportunistic tendencies and reduce the high costs of monitoring and directing employees' work activities, which in turn helps firms to address the performance losses caused by the negative impact of high human asset specificity and performance ambiguity on firm performance.

Third, previous empirical studies offer conflicting advice in terms of which industries are more suitable for adopting empowerment practices. For example, while Datta et al. (2005) found that empowerment practices are more likely to be found in service sectors with high capital intensity and high growth rates, Combs et al. (2006) argued that such practices are more likely to be found in manufacturing industries. This study wants to caution against oversimplified advice based on industry characteristics. According to TCE, the nature of firm-level employee-employer exchange relations, rather than industry-level characteristics, should guide firms' decisions on empowerment practices. For example, while service employees' tasks tend to be standardized and easy to monitor in low-end hotels, employees' tasks in similar jobs in high-end luxury hotels may require much greater tacit skills with high human asset specificity. Essentially, a transaction cost-exchange based perspective suggests that managers should carefully examine their core employees' job characteristics, rather than following industry best practice, in determining the adoption of empowerment practices.

### **2.5.3 Limitations and future research**

Our work has some limitations that provide avenues for future research. First, this study built our theory on the classic TCE assumption that firms adopt empowerment practices primarily for economic efficiency. However, the downside of the parsimony of our assumption is the comprehensiveness of our model. While the basic premise of TCE is that economizing is most fundamental to any economic organization, including work organizations (Williamson, 1999),

this study acknowledges that the employee-employer exchange is not merely an economic exchange and humans often take into account more factors than are accounted for by economic theories (including TCE). As the existing literature shows, firms may adopt empowerment practices for psychological and strategic benefits. Thus, our paper is not intended to investigate an exhaustive list of antecedents to empowerment, and this study acknowledges the need for theoretical integration to advance our understanding of the subject. However, before such attempts, care must be taken to clearly differentiate the various theoretical perspectives and compare their implications in different settings, rather than blur their distinctions (Maitland et al. 1985). This study suggests that such theoretical integration should proceed in two steps. In the short term, this study calls for studies that focus on developing and testing competing hypotheses on the relative importance of efficiency-seeking versus value-creation consideration for empowerment practices by, for example, comparing the predictive power of TCE and RBV. In the longer term, this study calls for studies that integrate TCE with organizational psychology and RBV to provide a more comprehensive multi-level theory of empowerment practices.

Second, the TCE logic of linking specific exchange attributes to contractual/organizational arrangements might be reversed in the context of employment relations. For example, it is possible that the adoption of empowerment practices, which involve the transfer of high levels of decision-making rights and power, would necessitate greater investment in specialized human assets (Chabaud, 2000). In other words, human asset specificity may be the outcome (rather than the determinant) of firms' choices of empowerment. While this study did not adopt this non-TCE argument in our model and proposition development, this study nonetheless recognizes that the causal link between human asset specificity and empowerment practices may be framed in both directions. Future empirical research might develop and test competing propositions to establish whether the exogenous condition of human asset specificity leads to the adoption of empowerment practices, or the firm's *ex ante* strategic choice of empowerment practices determines the *ex post* organizational characteristic of human asset specificity.

## References

- Ahmad, S. & Schroeder, R. G. (2003). The impact of human resource management practices on operational performance: recognizing country and industry differences. *Journal of Operations Management*, 21(1), 19-43.
- Albanese, R., & Van Fleet, D. D. 1985. Rational behaviour in groups: The free-riding tendency. *Academy of Management Review*, 10(2): 244-255.
- Alchian, A. A., & Demsetz, H. (1972). Production, information costs, and economic organization. *The American Economic Review*, 62(5), 777-795.
- Ancona, D. G. (1990). Outward bound: strategies for team survival in an organization. *Academy of Management Journal*, 33(2): 334-365.
- Anderson, E. (1985). The salesperson as outside agent or employee: A transaction cost analysis. *Marketing Science*, 4(3): 234-254.
- Aoki, M. (1989). *Information, incentives and bargaining in the Japanese economy: A microtheory of the Japanese economy*. New York, NY: Cambridge University Press.
- Arthur, J. B., Herdman, A. O., and Yang, J. (2014). How top management HR beliefs and values affect high-performance work system adoption and implementation effectiveness. *Human Resource Management*, 55(3), 413-435.
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99-120.
- Barringer, M. W., & Milkovich, G. T. (1998). A theoretical exploration of the adoption and design of flexible benefit plans: A case of human resource innovation. *Academy of Management Review*, 23(2), 305-324.
- Batt, R. (2001). The economics of teams among technicians. *British Journal of Industrial Relations*, 39(1), 1-24.

- Birdi, K., Clegg, C., Patterson, M., Robinson, A., Stride, C. B., Wall, T. D., & Wood, S. J. (2008). The impact of human resource and operational management practices on company productivity: A longitudinal study. *Personnel Psychology*, 61(3), 467-501.
- Blanchard, K. H., Carlos, J. P., & Randolph, W. A. 1999. *The 3 keys to empowerment*. San Francisco, CA: Berrett-Koehler Publishers.
- Bowen, D. E., & Ostroff, C. (2004). Understanding HRM-performance linkages: The role of the ‘strength’ of the HRM system. *Academy of Management Review*, 29(2), 203-221.
- Brown, J. A., Gianiodis, P. T., & Santoro, M. D. (2015). Following Doctors’ Orders: Organizational Change as a Response to Human Capital Bargaining Power. *Organization Science*, 26(5), 1284-1300.
- Burns, T., & Stalker, G. M. 1961. *The management of innovation*. London, UK: Tavistock Publications.
- Cannon-Bowers, J. A., & Salas, E. (2001). Reflections on shared cognition. *Journal of Organizational Behaviour*, 22(2), 195-202.
- Cappelli, P., & Neumark, D. (2001). Do “high-performance” work practices improve establishment-level outcomes?. *Industrial & Labor Relations Review*, 54(4), 737-775.
- Carson, S. J., Madhok, A., & Wu, T. (2006). Uncertainty, opportunism, and governance: The effects of volatility and ambiguity on formal and relational contracting. *Academy of Management Journal*, 49(5), 1058-1077.
- Chabaud, D. 2000. Asset specificity, work organization and mode of command: First insights from the automotive industry. In C. Ménard (Eds.), *Institutions, Contracts and Organizations: Perspectives from New Institutional Economics* (pp. 349-364). Cheltenham, UK: Edward Elgar Publishing.
- Chenevert, D., & Tremblay, M. (2009). Fits in strategic human resource management and methodological challenge: empirical evidence of influence of empowerment and compensation practices on human resource performance in Canadian firms. *The International Journal of Human Resource Management*, 20(4), 738-770.

- Coase, R. H. (1937). The nature of the firm. *Economica*, 4(16), 386-405.
- Coff, R. W. (1997). Human assets and management dilemmas: Coping with hazards on the road to resource-based theory. *Academy of Management Review*, 22(2), 374-402.
- Coff, R., & Kryscynski, D. (2011). Drilling for micro-foundations of human capital-based competitive advantages. *Journal of Management*, 37(5): 1429-1443
- Combs, J., Liu, Y., Hall, A., & Ketchen, D. (2006). How much do high-performance work practices matter? A meta-analysis of their effects on organizational performance. *Personnel Psychology*, 59(3), 501-528.
- Crook, T. R., Ketchen, D. J., Combs, J. G., and Todd, S. Y. (2008). Strategic resources and performance: a meta-analysis. *Strategic Management Journal*, 29(11), 1141-1154.
- Datta, D. K., Guthrie, J. P., & Wright, P. M. (2005). Human resource management and labor productivity: does industry matter?. *Academy of Management Journal*, 48(1), 135-145.
- Delery, J. E. (1998). Issues of fit in strategic human resource management: Implications for research. *Human Resource Management Review*, 8(3): 289-309.
- Den Hartog, D. N., & Verburg, R. M. (2004). High performance work systems, organizational culture and firm effectiveness. *Human Resources Management Journal*, 14(1), 55-78.
- Dyer, W. G. (1977). *Team building: Issues and alternatives*. Reading, MA: Addison-Wesley.
- Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *Academy of Management Review*, 14(1), 57-74.
- Evans, W. R., & Davis, W. D. (2005). High-performance work systems and organizational performance: The mediating role of internal social structure. *Journal of Management*, 31(5), 758-775.
- Fehr, E., Hart, O., and Zehnder, C. (2009). Contracts, Reference Points, and Competition - Behavioral Consequences of the Fundamental Transformation. *Journal of the European Economic Association*, 7(2-3), 561-572.
- Ford, R. C., & Fottler, M. D. (1995). Empowerment: A matter of degree. *The Academy of Management Executive*, 9(3), 21-29.

- Ghoshal, S., & Moran, P. (1996). Bad for practice: A critique of the transaction cost theory. *Academy of Management Review*, 21(1), 13-47.
- Gibson, C. B., Porath, C. L., Benson, G. S., & Lawler, E. E. (2007). What results when firms implement practices: The differential relationship between specific practices, firm financial performance, customer service, and quality. *Journal of Applied Psychology*, 92(6), 1467-1580.
- Gladstein, D. (1984). Groups in context: A model of task group effectiveness. *Administrative Science Quarterly*, 29(4), 499-517.
- Gunderson, M. (2002). Economics of personnel and human resource management. *Human Resource Management Review*, 11(4), 431-452.
- Huselid, M. A. (1995). The impact of human resource management practices on turnover, productivity, and corporate financial performance. *Academy of Management Journal*, 38(3), 635-672.
- Huselid, M. A., Jackson, S. E., & Schuler, R. S. (1997). Technical and strategic human resource management effectiveness on the determinants of firm performance. *Academy of Management Journal*, 40(1), 171-188.
- Jackson, S. E., & Schuler, R. S. (1989). Understanding human resource management in the context of organizations and their environments. *Annual Review of Psychology*, 46(1), 237-264.
- Jackson, S. E., Schuler, R. S., & Rivero, J. C. (1989). Organizational characteristics as predictors of personnel practices. *Personnel Psychology*, 42(4), 727-786.
- Jackson, S. E., Schuler, R. S., & Jiang, K. (2014). An aspirational framework for strategic human resource management. *The Academy of Management Annals*, 8(1), 1-56.
- Jensen, M. C., & Meckling, W. H. (1992). Specific and general knowledge and organizational structure. *Applied Corporate Finance*, 8(2), 4-18.

- Jiang, K., Lepak, D. P., Hu, J., & Baer, J. C. (2012). How does human resource management influence organizational outcomes? A meta-analytic investigation of mediating mechanisms. *Academy of Management Journal*, 55(6), 1264-1294.
- Jones, G. R. (1983). Transaction costs, property rights, and organizational culture: An exchange perspective. *Administrative Science Quarterly*, 28(3), 454-467.
- Jones, G. R. (1987). Organization-client transactions and organizational governance structures. *Academy of Management Journal*, 30(2), 197-218.
- Kanter, R. M. (1977). Men and women of the corporation. New York, NY: Basic Books.
- Kaufman, B. E. (2012). Strategic human resource management research in the United States: A failing grade after 30 years? *Academy of Management Perspectives*, 26(2), 12-36
- Kaufman, B. E. (2015). Market competition, HRM, and firm performance: The conventional paradigm critiqued and reformulated. *Human Resource Management Review*, 25(1), 107-125.
- Kaufman, B. E., & Miller, B. J. (2011). The firm's choice of HRM practices: Economics meets strategic human resource management. *Industrial and Labor Relations Review*, 64(3), 526-557.
- Kilduff, M., & Krackhardt, D. (1994). Bringing the individual back in: A structural analysis of the internal market for reputation in organizations. *Academy of Management Journal*, 37(1), 87-108.
- Kim, Y., & Ployhart, R. E. (2014). The effects of staffing and training on firm productivity and profit growth before, during, and after the Great Recession. *Journal of Applied Psychology*, 99(3), 361-389.
- Kidwell, R. E., & Bennett, N. (1993). Employee propensity to withhold effort: A conceptual model to intersect three avenues of research. *Academy of management Review*, 18(3), 429-456.
- Kim, D. O. (2005). The benefits and costs of employee suggestions under gainsharing. *Industrial & Labor Relations Review*, 58(4), 631-652.

- Kirkman, B. L., & Rosen, B. (1999). Beyond self-management: Antecedents and consequences of team empowerment. *Academy of Management Journal*, 42(1), 58-74.
- Klein, B., Crawford, R. G., & Alchian, A. A. (1978). Vertical integration, appropriable rents, and the competitive contracting process. *The journal of Law and Economics*, 21(2), 297-326.
- Lawler, E. E., Mohrman, S. A., & Benson, G. (2001). *Organizing for high performance: Employee involvement, TQM, reengineering, and knowledge management in the Fortune 1000: The CEO report*. San Francisco, CA: Jossey-Bass.
- Maitland, I., Bryson, J. and Van de Ven, A. (1985). Sociologists, economists, and opportunism. *Academy of Management Review*, 10(1), 59-65.
- Maynard, M. T., Gilson, L. L., & Mathieu, J. E. (2012). Empowerment-fad or fab? A multilevel review of the past two decades of research. *Journal of Management*, 38(4), 1231-1281.
- Menard, C. (1997). Internal characteristics of formal organizations. Cheltenham, UK: Edward Elgar Publishing.
- Milgrom, P. R., & Roberts, J. D. (1992). *Economics, organization and management*. Englewood Cliffs, NJ: Prentice-Hall.
- Mills, P. K., & Ungson, G. R. (2003). Reassessing the limits of structural empowerment: Organizational constitution and trust as controls. *Academy of management Review*, 28(1), 143-153.
- Nordhaug, O. (2004). Contributions to an economic theory of human resource management. *Human Resource Management Review*, 14(4), 383-393.
- Osterman, P. (1994). How common is workplace transformation and who adopts it? *Industrial and Labor Relations Review*, 47(2): 173-188.
- Ostroff, C., & Bowen, D. E. (2000). Moving HR to a higher level: HR practices and organizational effectiveness. In K. J. Klein & S. W. J. Kozlowski (Eds.), *Multilevel theory, research, and methods in organizations: Foundations, extensions, and new directions* (pp. 211-266). San Francisco, CA: Jossey-Bass.



- Ouchi, W. G. (1980). Markets, bureaucracies, and clans. *Administrative Science Quarterly*, 25(1), 129-141.
- Patel, P. C., & Cardon, M. S. (2010). Adopting HRM practices and their effectiveness in small firms facing product-market competition. *Human Resource Management*, 49(2), 265-290.
- Pierce, J. L., & Furo, C. A. (1991). Employee ownership: Implications for management. *Organizational Dynamics*, 18(3), 32-43.
- Pierce, J. L., Kostova, T., & Dirks, K. T. (2001). Toward a theory of psychological ownership in organizations. *Academy of management Review*, 26(2), 298-310.
- Ployhart, R. E., & Hale, D. (2014). The fascinating psychological microfoundations of strategy and competitive advantage. *Annual Review of Organizational Psychology and Organizational Behavior*, 1(1), 145-172.
- Pritchard, R. D. (Ed.). (1995). *Productivity measurement and improvement: Organizational case studies*. New York, NY: Praeger.
- Pritchard, R. D., Holling, H., Lammers, F., & Clark, B. D. (2002). *Improving organizational performance with the Productivity Measurement and Enhancement System: An international collaboration*. Huntington, NY: Nova Science.
- Pritchard, R. D., Harrell, M. M., DiazGranados, D., & Guzman, M. J. (2008). The productivity measurement and enhancement system: a meta-analysis. *Journal of Applied Psychology*, 93(3), 540-567.
- Randolph, W. A. (1995). Navigating the journey to empowerment. *Organizational Dynamics*, 23(4), 19-32.
- Richard, P. J., Devinney, T. M., Yip, G. S., and Johnson, G. (2009). Measuring organizational performance: towards methodological best practice. *Journal of Management*, 35(3): 718-804.
- Riordan, C. M., Vandenberg, R. J., & Richardson, H. A. (2005). Employee involvement climate and organizational effectiveness. *Human Resource Management*, 44(4), 471-488.

- Robbins, T. L., Crino, M. D., & Fredendall, L. D. (2002). An integrative model of the empowerment process. *Human Resource Management Review*, 12(3), 419-443.
- Roberts, K., & O'Reilly, C. (1979). Some correlations of communication roles in organizations. *Academy of Management Journal*, 22(1), 255-270.
- Rousseau, D. (1990). New hire perceptions of their own and their employer's obligations: A study of psychological contracts. *Journal of Organizational Behavior*, 11(5): 389-400.
- Rousseau, D. (1995). *Psychological contracts in organizations: Understanding written and unwritten agreements*. Thousand Oaks, CA: Sage.
- Russell, R. (1985). Employee ownership and internal governance. *Journal of Economic Behavior & Organization*, 6(3), 217-241.
- Sanchez, J. I., Kraus, E., White, S., & Williams, M. (1999). Adopting high-involvement human resource practices: The mediating role of benchmarking. *Group & Organization Management*, 24(4), 461-478.
- Seibert, S. E., Silver, S. R., & Randolph, W. A. (2004). Taking empowerment to the next level: A multiple-level model of empowerment, performance, and satisfaction. *Academy of Management Journal*, 47(3), 332-349.
- Sieger, P., Zellweger, T., & Aquino, K. (2013). Turning agents into psychological principals: aligning interests of non - owners through psychological ownership. *Journal of Management Studies*, 50(3), 361-388.
- Snell, S. A., & Youndt, M. A. (1995). Human resource management and firm performance: Testing a contingency model of executive controls. *Journal of Management*, 21(4), 711-737.
- Spencer, D. A. (2013). Barbarians at the gate: A critical appraisal of the influence of economics on the field and practice of HRM. *Human Resource Management Journal*, 23(4), 346-359.
- Spreitzer, G. M. (1995). Psychological empowerment in the workplace: Dimensions, measurement, and validation. *Academy of Management Journal*, 38(5), 1442-1465.

- Staw, B. M., & Epstein, L. D. (2000). What bandwagons bring: Effects of popular management techniques on corporate performance, reputation, and CEO pay. *Administrative Science Quarterly*, 45(3), 523-556.
- Subramony, M. (2006). Why organizations adopt some human resource management practices and reject others: An exploration of rationales. *Human resource management*, 45(2), 195-210.
- Subramony, M. (2009). A meta-analytic investigation of the relationship between HRM bundles and firm performance. *Human Resource Management*, 48(5), 745-768.
- Tsui, A. S., Pearce, J. L., Porter, L. W., & Tripoli, A. M. (1997). Alternative approaches to the employee-organization relationship: Does investment in employees pay off? *Academy of Management Journal*, 40(5), 1089-1121.
- Thomas, K. W., & Velthouse, B. A. (1990). Cognitive elements of empowerment: An “interpretive” model of intrinsic task motivation. *Academy of management Review*, 15(4), 666-681.
- Tzabbar, D., Tzafrir, S., & Baruch, Y. (2017). A bridge over troubled water: Replication, integration and extension of the relationship between HRM practices and organizational performance using moderating meta-analysis. *Human Resource Management Review*, 27(1), 134–148.
- Vázquez, X. H. (2004). Allocating decision rights on the shop floor: A perspective from transaction cost economics and organization theory. *Organization Science*, 15(4), 463-480.
- Vroom, V. H. (1964): *Work and Motivation*. New York, NY: Wiley & Sons.
- Vroom, V. H., & Jago, A. G. 1988. *The new leadership: Managing participation in organizations*. Englewood Cliffs, NJ: Prentice-Hall.
- Wall, T. D., Cordery, J. L., & Clegg, C. W. (2002). Empowerment, performance, and operational uncertainty: A theoretical integration. *Applied Psychology: An International Review*, 51(1), 146-169.

- Williams, K. D., & Karau, S. J. (1991). Social loafing and social compensation: The effects of expectations of co-worker performance. *Journal of Personality and Social Psychology*, 61(4): 570-581.
- Williamson, O. E. (1975). *Markets and hierarchies*. New York, NY: Macmillan.
- Williamson, O. E. (1985). *The economic institutions of capitalism*. New York, NY: Macmillan.
- Williamson, O. E. (1999). Strategy research: governance and competence perspectives. *Strategic Management Journal*, 20(12), 1087–1108.
- Wood, S. (1999). Human resource management and performance. *International Journal of Management Review*, 1(4), 367-413.
- Wood, S., Burrige, M., Rudloff, D., Green, W., & Nolte, S. (2015). Dimensions and location of high-involvement management: Fresh evidence from the UK Commission's 2011 Employer Skills Survey. *Human Resource Management Journal*, 25(2), 166-183.
- Wood, S. J., & Wall, T. D. (2007). Work enrichment and employee voice in human resource management-performance studies. *The International Journal of Human Resource Management*, 18(7), 1335-1372.
- Wright, P. M., & Boswell, W. R. (2002). Desegregating HRM: A review and synthesis of micro and macro human resource management research. *Journal of Management*, 28(3), 247-276.
- Wright, P. M., Dunford, B. B., & Snell, S. A. (2001). Human resources and the resource based view of the firm. *Journal of Management*, 27(6), 701-721.
- Wright, P. M., Gardner, T. M., Moynihan, L. M., & Allen, M. R. (2005). The relationship between HR practices and firm performance: Examining causal order. *Personnel Psychology*, 58(2), 409-446.

### **Chapter 3 (Study 2)**

## **A transaction cost analysis of the determinants and outcomes of empowerment practices: Evidence from multinational subsidiaries in China**

An earlier version of this chapter is under the 1<sup>st</sup> round of peer review at the

***Human Resource Management Journal***

## **Abstract**

Employee empowerment practices are often touted as the “best practices” for enhancing organizational performance. However, the business case for such practices is not strong despite the advocated benefits in the literature. This study draws upon transaction costs economics to examine both the antecedents and consequences of empowerment practices. Such an economics-based model complements the existing psychological and resource-based approaches in that it takes the employee–employer exchange as the unit of analysis, rather than focusing solely on either employees’ or employers’ perspectives. Based on a study of 99 multinational subsidiaries in China, this study found that performance ambiguity and human asset specificity, two major characteristics of the employee–employer exchange relationship, determine the degree to which employee empowerment practices will be adopted. However, this study only found partial support for the hypothesis that firms with a matched degree of employee–employer exchange characteristics and empowerment practices will perform better than firms with a mismatched degree of employee–employer exchange characteristics and empowerment practices. Theoretical and practical implications of these findings are discussed to guide practice and future research.

**Keywords:** employee empowerment practices, firm performance, human asset specificity, performance ambiguity, transaction costs, China

### 3.1 Introduction

The interest in employee empowerment practices has grown considerably in both management research and practice over the past several decades (Conger & Kanungo, 1988; Kanter, 1977; Lawler, Mohrman, & Benson, 2001; Maynard, Gilson, & Mathieu, 2012). Grounded primarily in organizational behavior (OB) and resource-based view (RBV), extant studies suggest that empowerment practices enhance organizational performance through promoting employees' motivation, positive attitudes, and initiative in responding to the constantly changing competitive environment (Frese, Kring, Soose, & Zempel, 1996; Lawler, Mohrman, & Ledford, 1992; Patel & Cardon, 2010), or through developing valuable and inimitable human resources (Huselid, 1995; Jiang, Lepak, Hu, & Baer, 2012; Pfeffer, 1995). In line with these suggested benefits, empowerment practices are often advocated as the "best practices" for enhancing employee productivity (Evans & Davis, 2005) and organizational success (Kaufman, 2003; Maynard et al., 2012).

A review of the pertinent literature, however, has shown some problems. First, there is an implicit assumption that empowerment practices can enhance organizational performance, irrespective of the organizational characteristics (Kaufman, 2003, 2015). However, such a view may be flawed (Kaufman, 2015; Wall, Cordery, & Clegg, 2002), as recent research indicates that not all organizations adopt employee empowerment practices despite the advocated benefits (Kaufman, 2015; Wood & Wall, 2007). Second, because of the near-universal treatment of empowerment practices as a general recipe for organizational performance (Wall et al., 2002), it is not surprising that this concept is taken as a given in existing studies, whereby the focus is on its performance implications. However, little is known about why organizations adopt empowerment practices in the first place (Wood, Burrridge, Rudloff, Green, & Nolte, 2015).

This study takes a step back to examine the fundamental question of what organizational factors may enable or constrain the degree to which employee empowerment is adopted in

organizations. Second, to better understand the empowerment–performance relationship, this study follows the suggestion made by Wall et al. (2002) and take a contingency perspective to examine under what conditions employee empowerment enhances organizational performance. To address these two research questions, in Section 3.2 this study first provides a critical review of the current literature on empowerment practices. In Section 3.3, this study draws upon ideas from organizational economics to build a theoretical model that examines both the antecedents and the performance consequences of empowerment practices. Specifically, this study develops hypotheses regarding employee–employer exchange characteristics both as antecedents of empowerment practices and as contingency factors between empowerment practices and organizational performance. Section 3.4 describes the research design for our empirical study. Section 3.5 presents the empirical results. Section 3.6 concludes with a discussion about the implications of our findings for both research and practice.

### **3.2 A Critical Review of Current Research on Empowerment Practices**

Employee empowerment practices generally refer to a set of HR practices aimed at granting employees greater autonomy and decision making rights with respect to the execution of their primary work (Wall et al., 2002; Robbins, Crino, & Fredendall, 2002). As noted in Chapter 2, synthesizing previous research on this subject (Blanchard, Carlos, & Randolph, 1999; Randolph, 1995), Seibert, Silver, and Randolph (2004) identified three organizational practices associated with empowerment: information sharing, autonomy through boundaries, and team accountability. Information sharing refers to distributing potential sensitive information about a firm’s financial performance, business unit outcomes, costs, and product quality to employees. Autonomy through boundaries is concerned with practices that enhance employees’ work autonomy and discretion in terms of the day-to-day conduct of business throughout the whole job. Team accountability involves the use of self-managing teams and problem-solving groups to ensure teams are the locus of decision-making autonomy and performance accountability in organizations. At the core of these various HR practices is a “change in job



structure, specifically the transfer of power and decision making authority” (Robbins et al., 2002. p. 427).

It should be noted that in our theoretical extension of empowerment practices in Chapter 2, this study takes a dichotomy view to theorize empowerment practices as an alternative contractual arrangement for employee-employer exchanges to be compared to the traditional authority mode of work organization. Such a view is consistent with the TCE’s comparative contracting approach toward the study of economic exchanges including employee-employer exchanges (Coase, 1937; Williamson, 1975). It helps us to see through the complexity of employment relations, uncover the contractual nature of empowerment practices, and hence contribute to the theoretical advancement of empowerment. In this and subsequent empirical chapters, however, this study uses the degree of empowerment practices as the dependent variable. This is because, in practice, contracting is never completely discrete and even the most fundamental mode of discrete governance includes some relational elements (Mecneil, 1978; Dore, 1987). As noted by Ford (1995), implementing empowerment practices is a matter of degree rather than an absolute. Organizations may adopt various degrees of empowerment practices for their employees. This is also in line with empowerment practices literature that emphasizes the degree of empowerment practices and its effect on organizational performance (Bae & Lawler, 2000; Bridi et al., 2008; Patterson, West, & Wall, 2004). Using the degree of empowerment practices can capture the complexity of the work organization within firms.

Current research on empowerment practices focuses on how empowerment practices enhance organizational performance from an OB perspective and RBV. First, from an OB perspective, the rationale for empowerment practices is their contribution to organizational performance due to employees’ enhanced positive attitudes and behaviors (Birdi et al., 2008; Riordan, Vandenberg, & Richardson, 2005). Specifically, this perspective states that empowerment practices enhance organizational performance by motivating employees to work harder (Hackman & Oldham, 1976), creating opportunities for employees to use their knowledge and skills (Wall et al., 2002), facilitating favorable social exchanges between

employees and the employer (Sun, Aryee, & Law, 2007), as well as encouraging employees to use initiative in their jobs (Cappelli & Neumark, 2001). This perspective focuses on the psychological, motivational, and behavioral benefits that empowerment practices bring to employees, and as such, takes an employees' view of the performance outcome of empowerment practices.

Drawing upon RBV (Barney, 1991), the second perspective posits that empowerment practices contribute to the development of valuable and rare human resources embedded in the firm's culture and history (Huselid, 1995), making them difficult to imitate and substitute by competitors (Wright, Dunford, & Snell, 2001). As human capital is one of the most important types of a firm's resources (Barney, 1991), empowerment practices will have a positive impact on organizational performance by unleashing the strategic value of employees that is of major concern to the employer (Jiang et al., 2012). Thus, in contrast to the OB perspective, this theoretical approach towards empowerment focuses on the potential of such practices as a source of a firm's competitive advantage from a managerial or employer's point of view.

Third, despite substantial research on the performance outcome of empowerment practices, the cost aspect of these practices is largely ignored (Kim, 2005). A few studies have suggested that empowerment practices may incur substantial costs, including training aimed at improving decision making and structural changes (Cappelli & Neumark, 2001; Kaufman, 2015). However, a systematic theoretical analysis of the costs of such practices is absent. This research argues that the cost of empowerment practices needs to be taken into account to provide a more balanced and complete understanding of the relationship between such practices and organizational performance.

In a nutshell, extant studies emphasize the effects of empowerment practices on organizational performance from either an OB/employee or a RBV/employer perspective. However, both perspectives pay little attention to the contextual environment, which may limit the effect of empowerment practices on organizational performance (Kaufman, 2015), and tend to encourage an undifferentiated application of such practices in a wide range of technological

and organizational contexts (Wall et al., 2002). This is problematic because, in reality, not all organizations adopt empowerment practices (Cappelli & Neumark, 2001; Wood et al., 2015). Moreover, despite the advocated benefits of empowerment practices, there is no evidence indicating that more firms are implementing a high degree of empowerment practices (Huselid & Becker, 2011; Wood et al., 2015). This study conjectures that the reason behind this gap between research and reality is due to the neglect of the cost aspect of empowerment practices.

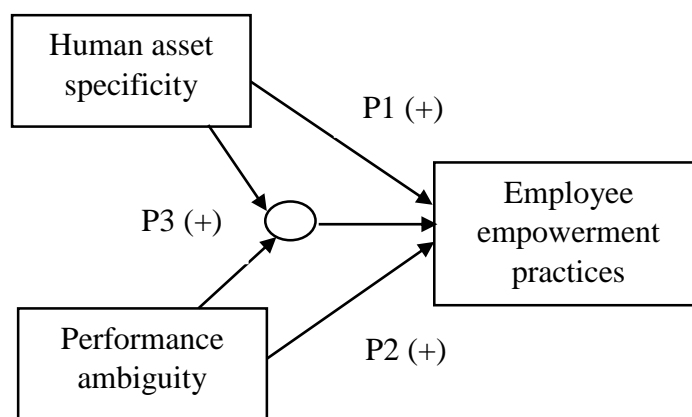
This paper aims to address these problems in the current literature by drawing upon insights from organizational economics. Specifically, this study develops a transaction cost approach toward the study of the empowerment practices–performance link based on the investigation of employee–employer exchanges, as an alternative to the current literature’s emphasis on either the employees’ or employer’s perspectives. Our general proposition is that empowerment practices as an organizational arrangement emerges from employee–employer exchange relations. The extent to which organizations adopt such practices is based on the consideration of the economic nature of such an exchange relationship. The match or mismatch between empowerment practices and employee–employer exchange characteristics will determine organizational performance. Below, this study proposes a Transaction Costs Economics (TCE) model of empowerment practices and develop specific hypotheses concerning the antecedents and consequences of empowerment practices.

### **3.3 Theory and Hypotheses**

#### **3.3.1 Linking employee–employer exchange characteristics to empowerment practices**

TCE defines transactions as the exchange of goods and services between two parties (Williamson, 1975). The basic tenet of TCE is that parties to a transaction identify the costs arising from the exchange characteristics and choose the appropriate organizational form that will minimize such costs (Williamson, 1985). Transaction costs include any costs incurred by information searching, negotiation, and enforcement of contract during an economic exchange (Williamson, 1979). In this paper, it is proposed that the two major employee–employer

exchange characteristics, performance ambiguity and human asset specificity, will shape the transaction costs in the employee–employer exchange relationship and independently and interactively affect the degree of empowerment practices adopted by firms, as Figure 3.1 illustrates.



**Figure 3.1. Antecedents of empowerment practices**

Performance ambiguity pertains to the extent to which the employer can easily evaluate and measure employees’ performance on their job tasks. Two sources of performance ambiguity are identified in the literature—technological non-separability and requirements of initiative and judgment (Williamson, 1985). First, technological non-separability refers to the interdependence of work relations among employees, whereby failure of one employee to complete his/her work will cause great loss to others (Alchian & Demsetz, 1972). When the tasks assigned to different employees are closely linked to each other, it is difficult for a supervisor to identify and assess employees’ individual performance information (Masten, Meehan, & Snyder, 1991). This task interdependence also makes it difficult for employees to compare their employment conditions with others in the external market. Second, high performance ambiguity also arises when employees’ jobs and tasks require individuals to exercise a high degree of initiative and judgment (Russell, 1985). When substantial judgment is needed to fulfil job duties, employees’ performance will become ambiguous and difficult to

measure, especially when only general rules or procedures are applied to guide employees' work activities.

These two sources of performance ambiguity have important implications for the organizational arrangement of employee–employer exchange relations. High performance ambiguity can lead to difficulties in identifying and collecting sufficient performance information from employees to direct their work activities. In such cases, information searching and monitoring costs tend to be prohibitively high. The traditional authority mode of organizing that relies on sufficient employee performance information becomes infeasible (Ouchi, 1980). Empowerment as an alternative mode of work organization is required to reduce the transaction costs in employee–employer exchange relations.

From the TCE point of view, therefore, a higher degree of empowerment practices are adopted to overcome performance ambiguity problems. By delegating relevant decision-making power and authority to employees and by encouraging information sharing among employees, empowerment practices reduce the need for searching, identifying, and assessing information from employees. Additionally, the team accountability dimension of empowerment practices with a focus on self-managing teams will save the transaction costs of frequently coordinating highly interdependent work tasks. It is therefore suggested that:

*Hypothesis 1:* The higher the degree of performance ambiguity, the higher the degree of empowerment practices adopted by firms.

Second, asset specificity refers to a specific asset invested to support a particular exchange relationship, whereby redeploying these specific assets reduces their productivity or entails additional costs (Williamson, 1975, 1985). Among different forms of asset specificity described by Williamson (1985), human asset specificity is the most relevant in the context of employee–employer exchange. Human asset specificity refers to specific job skills and knowledge an employee gains through work experience (Williamson, 1985). Under conditions of high human

asset specificity, jobs and tasks are unstandardized and require employees to invest heavily in firm-specific knowledge and skills. Since such knowledge and skills tend to be acquired on the job (Williamson, 1975), employees may develop more sophisticated knowledge of their work than their supervisors or employers. This is particularly the case when substantial tacit knowledge is developed by employees in the course of performing their jobs. The result is that employers will find it hard to hire new employees with such firm-specific skills and knowledge. Similarly, employees will find that their specialized knowledge and skills are not particularly valued by other employers, thus creating a lock-up situation, whereby unwanted employee turnover will result in great economic loss to both parties.

To protect specific human capital invested in employee–employer exchange, firms may adopt a higher degree of empowerment practices to tie the interests of employees to the organization on a long term basis and create a sense that management and workers are “in this together” (Williamson, 1985, p. 247). This TCE view is similar to the concept of psychological ownership in OB literature (Pierce & Furo, 1991), which serves the purpose of aligning one party’s interests with those of the other party, dispensing with the need for formal legal ownership (Pierce, Kostova, & Dirks, 2003).

Empowerment practices are a powerful tool for fostering employees’ feelings of psychological ownership (Pierce, O’driscoll, & Coghlan, 2004). Empirical evidence suggests that when employees develop a sense of psychological ownership, their attachment and sense of belonging to the firm increases (Pierce et al., 2003). The firm as the target of ownership feelings can play such a dominant role in the individual’s identity that it will become part of the person’s extended self (Pierce et al., 2003). As a result, a higher degree of empowerment practices can act as a proxy for psychological ownership (Pierce, Jussila, & Cummings, 2009) that will promote mutual trust and commitment between employers and employees (Hansen & Alewell, 2013) and consequently mitigate the transaction costs problem due to high human asset specificity. It is therefore suggested that:

*Hypothesis 2:* The higher the degree of human asset specificity, the higher the degree of empowerment practices adopted by firms.

Third, this study expects that the interaction between performance ambiguity and human asset specificity increases the motivation of employers to embrace a higher degree of empowerment practices. On the one hand, human asset specificity is likely to strengthen the effect of performance ambiguity on the degree of empowerment practices. As the degree of human asset specificity increases, the potential opportunistic threat for both employees and employers tends to increase. Thus, human asset specificity will increase the employer's difficulties in identifying and evaluating employees' job performance. Consequently, the effect of performance ambiguity on the degree of empowerment practices will be strengthened. On the other hand, performance ambiguity will also strengthen the effect of human asset specificity on the degree of empowerment practices. When employees' performance ambiguity is low, the employer can resort to performance information to reduce the potential opportunistic risk associated with human asset specificity. However, when performance ambiguity is high, employers cannot find enough or accurate performance information to mitigate the opportunistic hold-up by the employer. As a result, it becomes more imperative to align employees' interests with the employer's through a higher degree of empowerment practices and avoid unwanted employee turnover. Therefore, the effect of human asset specificity on the degree of empowerment practices will be strengthened. In sum, the joint effects of human asset specificity and performance ambiguity will result in the adoption of a higher degree of empowerment practices.

*Hypothesis 3:* The higher the degree of human asset specificity and performance ambiguity, the higher the degree of empowerment practices adopted by firms.

### 3.3.2 Employee empowerment practices, employee–employer exchange characteristics and performance

Next, this study analyses how employee–employer exchange characteristics may moderate the relationship between empowerment practices and organizational performance. The basic premise of TCE is that efficiency (in terms of transaction costs savings) will be enhanced when transactions or exchanges are appropriately aligned with contractual or organizational arrangements (Williamson, 1985). In contrast, exchanges that are not properly aligned with organizational arrangements will incur performance loss. In the context of employee–employer exchange, this study argues that, when performance ambiguity and human asset specificity are matched with the appropriate degree of empowerment practices, organizational performance will improve. Figure 3.2 below illustrates how the interaction between the employee–employer exchange characteristics and empowerment practices determines organizational performance. This TCE perspective challenges the dominant view of the effect of empowerment practices on organizational performance, which assumes that a higher degree of empowerment practices is better for organizations (Kaufman, 2015).

		The degree of employee-employer exchange characteristics	
		High	Low
The degree of empowerment practices	High	<b>High performing (H4a)</b>	Low performing
	Low	Low performing	<b>High performing (H4b)</b>

**Figure 3.2. The interaction between employee-employer exchange characteristics and the degree of employee empowerment and its impact on performance**



First, TCE suggests that firms are likely to achieve a good performance when a high degree of human asset specificity/performance ambiguity is matched with a high degree of empowerment practices. When the degree of human asset specificity and performance ambiguity is high, transaction costs associated with employees' unwanted turnover will increase. Therefore, it is important to align employees' and employer's interests to alleviate the problem of opportunism. Under this circumstance, empowering employees to make decisions about their work will give them a sense of ownership of their work and promote behaviors that are aligned with the employer's interests. Accordingly, potential job-related opportunism will be reduced. Empowerment can also incentivize employees to learn on the job and invest more specialized human capital in the firm (Hansen & Alewell, 2013).

In addition, when performance ambiguity is high, the costs of identifying, collecting, and monitoring relevant work information from employees tend to be high for employers. A high degree of empowerment practices will grant employees substantial job discretion to take the initiative instead of waiting for their supervisor's direction or relying on rigid work procedures to take action (Bowen & Lawler, 1992). A high degree of empowerment also minimizes the need for employers to monitor employees as employees are encouraged to make use of their potential creativity and devise new work methods to meet customers' needs and organizational challenges (Hansen & Alewell, 2013).

Similarly, as empowered employees have more job discretion to adjust their work effort and speed, empowerment practices facilitate coordination between employees when tasks are interdependent (Vázquez, 2004). Empowered employees are likely to be assigned flexible job responsibilities and work in self-managed teams (Seibert et al., 2004). Thus, under conditions of a high degree of empowerment practices, employees will have a deeper understanding of each other's work, which will enhance the degree of cooperation and cohesion between them (Lorinkova, Pearsall, & Sims, 2012). Moreover, empowerment practices not only facilitate coordination of interdependent work in the same department and function, but also enhance

coordination across departments and functions by establishing cross-functional teams (Hansen & Alewell, 2013).

Based on the above arguments, it is proposed that:

*Hypothesis 4a:* Firms with a high degree of exchange characteristics and a high degree of empowerment practices perform better than firms with mismatched degrees of exchange characteristics and empowerment practices.

Second, TCE also posits that transaction costs in employee–employer exchanges can be minimized when a low degree of employee–employer exchange characteristics is matched with an organizational arrangement that is characterized by a low degree of empowerment practices. On the one hand, a lower degree of performance ambiguity denotes stable and pre-designed jobs with well-established performance standards (Hansen & Alewell, 2013). Employers can refer to these standards to assign and direct employees’ work activities efficiently and it is relatively easy for the employer to monitor employees’ work activities (Alchian & Demsetz, 1972). Under such circumstances, the authority mode of organizing (which entails a low degree of empowerment practices) will be the optimal arrangement for economizing on the transaction costs and improving organizational performance.

On the other hand, a lower degree of human asset specificity indicates that neither the employer nor the employees have an incentive to keep an ongoing relationship. Instead, the main incentive for both parties is to exchange their resources in the internal labour market. The switching costs for employees and employers to engage in alternative employment relations are relatively low. Hence, the traditional authority mode of work organization with a low degree of empowerment will be sufficient to govern the employee–employer exchange relationship. For example, Lepak and Snell (1999) show that firms with a lower degree of empowerment practices perform well in labour-intensive industries where the requirement for human asset specificity is low. By contrast, if organizations adopt a higher degree of empowerment when

performance ambiguity and human asset specificity is low, the establishment costs for a high degree of empowerment practices may outweigh the benefits (Cappelli & Neumark, 2001; Hansen & Alewell, 2013). In summary, when a lower degree of employee–employer exchange characteristics is matched with a lower degree of empowerment practices, firms are likely to achieve better organizational performance compared with firms with mismatched degrees of exchange characteristics and empowerment practices. Therefore, it is suggested that:

*Hypothesis 4b:* Firms with a low degree of exchange characteristics and low empowerment practices would perform better than firms with a mismatched degree of exchange characteristics and empowerment practices.

### **3.4 Method**

#### **3.4.1 Sample and procedures**

To test our model and hypotheses, this study chose multinational enterprises (MNEs) subsidiaries in China as our empirical setting. Since the late 1970s, China has witnessed unprecedented enthusiasm for the establishment of foreign-invested enterprises (Zhu, 2008). Due to its fast growth in the economy, the sheer size of the potential market, and the abundant labour resources, China has become the top destination for foreign direct investment (FDI) in developing countries and the second in the world after the United States. 90% of the top 500 companies in the world reported by Fortune have invested in China (Yao, 2008). Employment in foreign-invested enterprises increased to over 45 million by 2016 (State Statistical Bureau, 2016). Although a growing body of research has examined HRM issues in MNE subsidiaries in China, they are primarily concerned with HRM practices such as selection, compensation, and performance management (Zhu, 2008; Zhu, Cooper, Fan & De Cieri, 2013). Insufficient attention has been paid to empowerment practices in these subsidiaries (Huang & Gamble, 2011). Given that empowerment practices have been regarded as “best practices” and extensively researched in Western countries (Huang & Gamble, 2011), investigating

empowerment practices in MNE subsidiaries in China extends the empirical setting from Western contexts to an important but under-studied non-Western context.

Moreover, previous research also shows that empowerment practices are not favoured by Chinese firms (Jiang et al., 2015; Su, Wright, & Ulrich, 2015). Chinese culture, characterised by high power distance, means that transfer of authority from managers to employees is not seen as legitimate in China (Farh & Cheng, 2000). Scholars argue that, when operating in China, Western MNEs must make adaptations to local practices (Bjorkman & Lu, 1999; Zhu, 2008). However, MNEs need to consider a variety of factors before implementing empowerment practices. Under this unfavourable environment in China, choosing MNE subsidiaries might highlight other factors influencing empowerment practices such as employee-employer exchange characteristics.

A questionnaire survey was conducted between late 2015 and early 2016 with MNE subsidiaries mainly located in four major cities in China: Shanghai, Guangzhou, Shenzhen, and Suzhou. According to the China City Statistics Year Book 2014, these four cities were among the top cities in terms of numbers of FDI. The survey was undertaken in a sample that comprised 343 MNE subsidiaries in China. To gain access to target firms, this study used our personal contacts at local universities to facilitate this process through their business networks (Yu & Cooper, 1983). Snowballing strategies were also applied, where people who participated in this research were asked to refer contacts to solicit more potential respondents (Atkinson & Flint, 2001). These strategies are particularly useful in China where local personal networks are of great help to organization access (Easterby-Smith & Malina, 1999).

Two types of questionnaires, paper-based and online questionnaires, were used depending on the participants' preference. HR managers or senior managers charged with HR issues were chosen as respondents as they have a comprehensive understanding of the organization's operation and HR policies and practices. A cover letter attached to the questionnaire outlined the content and objective of the research and participants were assured of their anonymity and confidentiality. Completed questionnaires were returned via the self-sealed and prepaid

envelope to the researcher's address in China. This study emailed the online survey link to respondents' emails. Anonymity and confidentiality were also ensured.

Of the 343 questionnaires sent, 112 were returned and 99 usable surveys were obtained, representing a 29% response rate. Specifically, 70 questionnaires were returned from the initial distribution and a further 42 responses were collected after this study contacted the respondents again. This response rate was considered acceptable in the context of China, given the well-documented difficulties in obtaining survey responses from senior managers (Jolly, 2005).

Among the 99 firms with usable surveys, most are originated from US, UK, and European Union (71%). These firms' average age was 16 and 84% of the firms had over 100 employees when the survey was conducted. In terms of industry distribution, 46% of the firms were in manufacturing, 26% were in electronics, and the rest in services, IT and other industries. Table 3.1 summarizes major characteristics of the sample.

This study used several procedure remedies recommended by Podsakoff, MacKenzie, Lee and Podsakoff (2003) to reduce the potential common method bias (CMB). Firstly, the survey introduction declared to the respondents that the anonymity and confidence were guaranteed. Secondly, the use of positive and negative wording of the questions in the survey was balanced to reduce CMB. Thirdly, Harman's single-factor test was used to check the potential common method bias (Podsakoff et al., 2003). All the variables were loaded into an exploratory factor analysis to test whether one single factor accounts for a majority of the covariance between the measures. The un-rotated factor solution suggested that one factor explained 21.3% variance, indicating that common method variance was not substantial.

**Table 3.1. Sample Characteristics**

<b>Variable</b>	<b>Category</b>	<b>Percent</b>
Firm size	Employees>500	49%
	Employees 101-500	35%
	Employees<100	16%
Industry	Manufacturing	46%
	Electronics	26%
	Services	12%
	Information technology	9%
	Others	7%
Location	Suzhou	65%
	Shanghai	15%
	Guangzhou	9%
	Shenzhen	3%
	Others	8%
Firm age	1-10	24%
	11-20	58%
	21-25	18%

*Note:* N=99

### **3.4.2 Measures**

All the measures were originally developed in English and translated into Chinese and then back translated into English by different translators. Another bilingual proof-reader checked the translation to guarantee equivalency of the original and Chinese versions of the questionnaire.

#### *Independent Variables*

##### *Human asset specificity*

A 10-item scale developed by Lepak and Snell (2002) was adopted to measure human asset specificity. Sample items include “compared with other companies in the same industry, our employees have knowledge and skills that are customized to our particular needs” and “compared with other companies in the same industry, our employees have knowledge and skills that are not widely available in the labor market”. Responses were obtained on a seven-

point scale, ranging from 1 = “strongly disagree” to 7 = “strongly agree”. The scale’s alpha reliability was 0.89.

#### *Performance ambiguity*

Performance ambiguity was measured by six items adapted from Pearce and Gregersen’s (1991) task interdependence scale. This scale was adopted because task interdependence was the main source of performance ambiguity (Alchian & Demsetz, 1972; Williamson, 1985). In Williamson’s (1985) term, task interdependence refers to technological nonseparabilities where work units are closely linked to each other. To capture Williamson’s (1985) classical account of performance ambiguity, this thesis used task interdependence as a proxy for performance ambiguity. An example item is “the work requires employees to consult with each other fairly frequently”. This scale was also assessed on a seven-point scale, ranging from 1 = “strongly disagree” to 7 = “strongly agree”. The alpha coefficient of this scale was 0.68.

#### *Dependent Variables*

##### *The degree of empowerment practices.*

To measure employee empowerment practices, this study used and adapted an index developed by Jiang et al. (2015) composed of three organizational practices promoting information sharing, work autonomy through job boundaries, and team accountability. This measurement was adopted because it is consistent with the conceptual meaning of empowerment practices as three interrelated HR practices: information sharing, autonomy through (job) boundaries, and team accountability (Seibert et al., 2004). In this regard, Jiang et al.’s (2015) development of measurement of empowerment practices was based on the conceptual foundation of Seibert et al.’s (2004) work. Moreover, this measurement was also applied in China and shown to have strong validity and reliability (Jiang et al., 2015). The HR manager was requested to rate the extent to which each of the items was used to manage employees. Information sharing ( $\alpha = 0.77$ ) was measured by four items asking the respondents to what degree they agreed with the statements. For example, “the division’s

goals and direction have been made clear to employees” and “employees are kept informed of important issues in the organization”. Responses were obtained on a seven-point Likert scale, ranging from 1 = “strongly disagree” to 7 = “strongly agree”. Work autonomy through boundaries ( $\alpha=0.78$ ) included three items asking how much involvement and direct influence employees had in “deciding how to do their job and organize the work,” “setting goals for their work group or department,” “overall company decisions” (1 = “none”, and 7 = “very great degree”). Finally, team accountability ( $\alpha = 0.71$ ) was assessed by two items asking respondents to what degree they agree with the statements: “our company extensively use team, committee, or task forces that addresses issues such as product quality, cost cutting, productivity, or other workplace issues” and “our company extensively use self-directed teams or work cell” (1 = “strongly disagree” and 7 = “strongly agree”). Following the well-established literature in strategic HRM, the construct of employee empowerment practices was treated as an additive index rather than as items in a scale representing an underlying latent variable (Batt & Colvin, 2011; Delery, 1998; Jiang, Colakoglu, Lepak, Blasi, & Kruse, 2015). As all the items were measured on a seven-point Likert scale, corresponding items were grouped to form three components that were treated as additive and a unitary index of employee empowerment practices was computed by averaging the values of three components.

#### *Organizational performance*

Following Delaney and Huselid (1996) and Wang, Tsui, Zhang, and Ma (2003), this study used a ten-item scale to measure organizational performance in the Chinese context. The respondents were asked to compare their firms’ performance over the past two years to that of other firms in the same industry in terms of, for example, market share, customer satisfaction, and relations between management and employees. Responses were obtained on a seven-point scale, ranging from 1 = “the worst” to 7 = “the best”. The alpha coefficient of this scale was 0.94.

#### *Control Variables*



Four organizational characteristics served as control variables: firm size, firm age, percentage of union workers, and industry. Size was chosen as previous research showed it was associated with both the degree of empowerment and organizational performance (Sun, Aryee, & Law, 2007; Vázquez, 2004). Increasing firm size may lead to a larger number of transactions, which necessitates the delegation of decision making rights to employees (Vázquez, 2004). Further, size can affect organizational performance because of economics of scale and market power (Shepherd, 1975). Size was measured as the natural log of the number of employees. Previous research also showed that firm age was related to the evolution of empowerment practices and organizational performance (Sun et al., 2007). Finally, the percentage of union workers and industry were also found to affect the degree of empowerment practices and organizational performance (Datta, Guthrie, & Wright, 2005; Jiang, et al., 2015). Industry characteristics were controlled by grouping firms into five categories: (1) information technology (IT); (2) service; (3) electronics; (4) manufacturing; and (5) others.

### **3.4.3 Data Analysis**

Hierarchical regression was conducted to test the hypotheses because it allows the entry of the independent variables in order as specified by the researcher based on the theoretical grounds. Each independent variable can be assessed with regard to its contribution to the dependent variable after controlling for previous variables. Furthermore, this procedure has been employed in prior empowerment practices research (Ngo, Foley, Loi, & Zhang, 2011; Zhang & Bartol, 2010; Wood et al., 2015). Lastly, hierarchical regression is one of the most useful techniques to test moderation effect as the variables' order of entry is based on their causal priority (Cohen & Cohen, 1983).

## **3.5 Results**

Table 3.2 reports the means, standard deviations and correlations of all variables. As expected, human asset specificity and performance ambiguity were correlated with the degree of

empowerment practices, which was in turn correlated with organizational performance.

**Table 3.2. Descriptive statistics and correlations**

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
1. IT	.09	0.29											
2. Service	.13	.34	-.12										
3. Electronics	.25	.44	-.18	-.23*									
4. Manufacturing	.46	.50	-.30**	-.36**	-.54**								
5. Firm age	16.09	7.71	.09	.05	.06	-.17							
6. Firm size	6.41	1.58	-.00	.01	.33**	-.27**	.23*						
7. PUW	.46	.46	-.08	-.09	.06	.04	.11	.14					
8. HAS	4.66	1.04	.23*	-.25*	.16	-.05	.07	.11	-.01				
9. PA	5.08	.64	.07	-.13	-.01	.14	-.03	-.11	.13	.37**			
10. EP	4.95	.91	.12	-.20*	-.05	.02	.03	-.03	-.12	.40**	.31**		
11. OP	5.28	.91	.03	.06	-.04	-.05	-.14	.16	-.09	-.02	-.09	.28**	

*Note:* (1)  $N = 99$ ; \* $p < 0.05$ , \*\* $p < 0.01$ , two tailed. (2) Industries were recoded to four dummy variables: Dumindu1: IT; Dumindu2: Service; Dumindu3: Electronics; Dumindu4: Manufacturing. Other industries was omitted and served as the base case. For each dummy variable, 0 represents No (or Not from this industry) and 1 represents Yes (or Yes the company is from this industry); (3) PUW: percentage of union workers; and (4) HAS: human asset specificity (5) PA: performance ambiguity (5) EP: empowerment practices (6) OP: organizational performance.

Hypotheses 1 and 2 predicted that higher degrees of human asset specificity and performance ambiguity are related to a higher degree of empowerment practices. A hierarchical regression analysis was conducted between the degree of empowerment practices as the dependent variable and human asset specificity and performance ambiguity as independent variables. Control variables were first entered and human asset specificity and performance ambiguity were then entered into the regression analysis. Examination of the skewness and kurtosis indicated that the variables were normally distributed. Table 3.3 shows the results of the regression analysis. The multiple correlation coefficient ( $R = 0.54$ ) was significantly different from zero,  $F(9, 89) = 4.05$ ,  $p < 0.01$ , and 29.1% of the variation in the dependent variable was explained by the set of independent variables (adjusted  $R^2 = .291$ ). Performance ambiguity had significant positive regression weight,  $sri^2 = 0.07$ ,  $t = 2.45$ ,  $p < 0.05$ , indicating that when performance ambiguity was higher, the degree of empowerment practices adopted by MNE subsidiaries would be higher, after controlling for the other variables in the model. Human asset specificity also had significant positive regression weight,  $sri^2 = 0.05$ ,  $t = 3.01$ ,  $p$

< 0.05 indicating that the higher the degree of human asset specificity, the higher the degree of empowerment practices adopted by firms. Thus, hypotheses 1 and 2 were supported.

**Table 3.3. Result of hierarchical regression analysis for the effect of employee-employer exchange characteristics on empowerment practices**

Variables	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>
(Constant)	5.63	5.93	5.94
Firm size	.01	.01	.01
Firm age	.00	.00	.00
PUW	-.27	-.32	-.33
IT	-.35	-.89*	-.88*
Service	-1.17*	-1.20*	-1.09**
Electronics	-.73	-1.10**	-1.09**
Manufacturing	-.63	-.93*	-.92*
HAS		.27**	.27**
PA		.35*	.36*
HAS*PA			.07
Adjusted R-Square	.10	.29***	.29***
Change in R-Square		.19***	.00

*Note:* (1)  $N = 99$ ; \* $p < 0.05$ , two tailed; (2) Dumindu 1-4 (Industry Dummy 1-4): industry characteristics; (3) PUW: percentage of union workers; (4) HAS: human asset specificity; and (5) PA: performance ambiguity.

Hypothesis 3 proposed that the interaction of human asset specificity (HAS) and performance ambiguity (PA) would be positively related to the degree of empowerment practices. Hierarchical multiple regression was used to test the interaction effects. Hierarchical regression is a powerful method for analysing interaction effects because the variable's order of entry was controlled by the researchers based on their causal priority (Cohen & Cohen, 1983). This study constructed the interaction term HAS\*PA after all interaction variables were mean-

centered to reduce multicollinearity (Aiken & West, 1991). Control variables were entered first, then human asset specificity and performance ambiguity were entered, and finally HAS\*PA was entered. As shown in Table 3.3, there was an insignificant interaction effect of human asset specificity and performance ambiguity on the degree of empowerment practices ( $t = 0.54, p > 0.05$ ), indicating that Hypothesis 3 was not supported.

Hypotheses 4a and 4b predicted that firms with matched degrees of exchange characteristics and empowerment practices would perform better than firms with mismatched degrees of exchange characteristics and empowerment practices. Specifically, firms with high degrees of exchange characteristics and empowerment practices would perform better than firms with mismatched degrees of exchange characteristics and empowerment practices. Firms with low degrees of exchange characteristics and empowerment practices would also perform better than firms with mismatched degrees of exchange characteristics and empowerment practices. To test basic tenet of TCE regarding the match between employee-employer exchange characteristics and empowerment practices, following Combs and Ketchen (1999), this study treated employee-employer exchange characteristics as a whole and created an index of employee-employer exchange characteristics by adding the values of human asset specificity and performance ambiguity. Match or fit is most commonly measured in terms of a moderated relationship between the variables (Venkatraman, 1989). In this case, empowerment practices affect organizational performance at different levels of exchange characteristics. This study ran moderated regression as an initial test of the hypothesis. Once moderated regression confirmed the existence of an interaction effect, organizations were divided into subcategories based on median exchange conditions and empowerment practices. This study then compared the difference between groups to analyze if the nature of the interaction was consistent with Hypotheses 4a and 4b.

As shown in Table 3.4, the moderation test revealed the interaction effect was significant ( $\beta = 0.20; p < 0.01$ ). This provided initial support for the prediction that exchange characteristics and empowerment practices interact to influence organizational performance. Next, This study

divided the sample firms into four groups according to the median exchange characteristics ( $Md = 9.70$ ) and empowerment practices ( $Md = 5.03$ ) values to further investigate the nature of the interaction (see Figure 3.3). Firms were partitioned into four groups because hypotheses 4a and 4b comprise a priori disordinal interaction, in which one independent variable (i.e. the degree of empowerment practices) affects the dependent variable (i.e. organizational performance) differently at different levels of the other independent variable (i.e. employee–employer exchange characteristics). This is also consistent with a previous study, which divided the exchange condition and the extent of interfirm cooperation to examine their interaction effect on organizational performance (Combs & Ketchen, 1999). This categorization also corresponds to four approaches to employee-organization relationship in the employment relationship literature (Tsui et al., 1997). Specifically, Group 1 is analogous with mutual investment employee-organization-relationship approach. Group 4 is similar with the quasi-spot-contract type of employee-organization-relationship approach. Group 2 resembles an overinvestment employee-organization-relationship approach. Finally, Group 3 represents an underinvestment employee-organization-relationship approach.

**Table 3.4. The interaction effect of empowerment practices and employee-employer exchange characteristics on organizational performance**

Variables	$\beta$	$t$	$p$
Firm age	-.02	-1.90	.060
PUW	-.04	-.22	.823
Firm size	.08	1.34	.185
IT	-.11	-.25	.810
Service	.12	.28	.778
Electronics	-.18	-.46	.647
Manufacturing	-.20	-.55	.586
Empowerment practices	.30	2.55	.013*
Exccha	-.17	-2.43	.017*
Empowerment practices*Exccha	.20	3.46	.001**

*Note:* (1)  $N = 99$ ; \* $p < 0.05$ , \*\* $p < 0.01$ , two tailed; (2) Dumindu1-4 (Industry Dummy 1-4): industry characteristics; (3) PUW: percentage of union workers; and (4) Exccha: employee-employer exchange characteristics.

		The degree of employee-employer exchange characteristics	
		High	Low
The degree of empowerment practices	High	<b>Group 1 (<i>N</i> = 30)</b>	Group 2 ( <i>N</i> = 22)
	Low	Group 3 ( <i>N</i> = 16)	<b>Group 4 (<i>N</i> = 31)</b>

**Figure 3.3. Four groups divided by median of the degree of employee-employer**

A one-way analysis of variance (ANOVA) was conducted with organization performance as the dependent variable to inspect if there was any difference between the four groups. Levene's test was not significant,  $F(3, 95) = 0.36, p > .05$ , and that means the assumption of homogeneity of variances was not violated. A significant effect was found for the groups,  $F(3, 95) = 3.35, p < 0.05$ . The effect size, calculated using eta squared, was 0.10, suggesting a medium effect. Post-hoc pairwise comparisons indicated that firms with high degrees of exchange characteristics and empowerment practices (Group 1,  $M = 5.32, SD = 0.95$ ) performed better than firms with a high degree of exchange characteristics and a low degree of empowerment practices (Group 3,  $M = 4.67, SD = 0.87$ ) but did not perform better than firms with a low degree of exchange characteristics and a high degree of empowerment practices (Group 2,  $M = 5.52, SD = 0.78$ ). Therefore, hypothesis 4a was partially supported. Similarly, firms with low degrees of exchange characteristics and empowerment practices (Group 4,  $M = 5.39, SD = 0.87$ ) perform better than firms with a high degree of exchange characteristics and a low degree of empowerment practices (Group 3,  $M = 4.67, SD = 0.87$ ) but did not perform better than firms with a low degree of exchange characteristics and a high degree of empowerment practices (Group 2,  $M = 5.52, SD = 0.87$ ). Thus, hypothesis 4b was also partially supported. Put differently, firms with matched degrees of exchange characteristics and empowerment practices performed better than firms with a high degree of exchange characteristics and a low degree of empowerment practices. However, inconsistent with TCE's

logic, there is no performance difference between firms with matched degrees of exchange characteristics and empowerment practices and firms with a low degree of exchange characteristics and a high degree of empowerment practices.

### **3.6 Discussion and Conclusion**

#### **3.6.1 Contribution to theory**

First, this paper answers recent calls for more research to shed light on the antecedents of employee empowerment practices (Kaufman, 2015; Wood et al., 2015). After years of research advocating the benefits of empowerment practices, the dilemma is that a high degree of empowerment practices are only adopted by a small portion of firms (Kaufman, 2015) and the question of what drives firms to adopt empowerment practices has not been adequately examined (Wood et al., 2015). By relaxing the assumption of the (positive) impact of empowerment practices on firm performance, This study draw upon transaction costs economics to examine both the antecedents and consequences of empowerment practices. Such an economics-based model complements the traditional psychological and RBV approaches in that it takes the employee–employer exchange as the unit of analysis, rather than focusing solely on either employees’ or employers’ perspectives. In doing so, our model contributes to a more balanced understanding of empowerment practices as a type of organizational arrangement for employment relations from a transaction costs economizing perspective, complementing the existing literature’s focus on the beneficial (motivational and psychological) aspects of empowerment practices.

Second, our empirical findings support TCE predictions that human asset specificity and performance ambiguity are positively related to the degree of empowerment practices. This research shows that empowerment practices are used to replace the authority mode of work organization when performance ambiguity and human asset specificity are high. However, this study did not find support for the interaction effect of human asset specificity and performance

ambiguity on empowerment practices in our empirical study. The reason may be that the effect of human asset specificity is so powerful that it alone might determine the type of work organization firms will adopt irrespective of characteristics of performance ambiguity. Even if the performance ambiguity is low, the force of human asset specificity will cause a significant threat to the ongoing employee–employer exchange relationship (Brown, Gianiodis, & Santoro, 2015), which justifies the need for a substantial transfer of power from employers to employees to reduce unwanted employee turnover. Therefore, the influence of human asset specificity on the degree of empowerment practices will not vary with the degree of performance ambiguity.

In addition, this research answers recent calls to add insights into major contextual factors that influence the relationship between empowerment practices and organizational performance (Tzabbar et al., 2016). In particular, this study extends Wall et al.'s (2002) work on the relationship between uncertainty, empowerment practices and performance to reveal that firms with matched degrees of exchange characteristics and empowerment practices do perform better than firms with a high degree of exchange characteristics and a low degree of empowerment practices.

Third, This study also contributes to TCE by extending the TCE analysis to internal organization of the firm. Although TCE has been regarded as one of the most useful theoretical perspectives in understanding why organizations adopt HRM practices as they do (Wright & McMahan, 1992), it has rarely been deployed to systematically analyse HRM issues (Boselie, Dietz, & Boon, 2005). The reason may be that the emphasis of TCE on opportunism and hierarchical control limits its application and generalization in contemporary organizations characterized by a high degree of employee involvement (Ghoshal & Moran, 1996; Spencer, 2013). There is also some conceptual ambiguity surrounding the effect of asset specificity on firms' internal organization. While some scholars argued that more human asset specificity will lead to more incomplete contracts, thus requiring more hierarchical control and monitoring (Menard, 1997; Vázquez, 2004), others have suggested that human asset specificity and performance ambiguity will drive organizations to adopt more empowering and egalitarian



practices (e.g. Williamson, 1985). In this paper this study theoretically established and empirically demonstrated that higher degrees of human assets specificity and performance ambiguity will lead to a higher degree of empowerment practices. Recently, Kaufman (2012, 2015) argued for the need to incorporate economics-based theoretical models to move the field of strategic HRM forward. Our paper represents the first systematic attempt in this direction and sets the stage for future research to use TCE to generate more insights into why firms adopt other HRM practices and how they impact on organizational performance.

### **3.6.2 Contribution to practice**

First, our analysis brings economic efficiency into managers' considerations in choosing the appropriate degree of empowerment practices for organizing employment relations. Despite all the psychological and motivational benefits advocated in the literature, empowerment practices as a mode of work organization is not without costs, and the current literature (grounded primarily in organizational behavior and RBV) pays little attention to how such costs may impact on the managerial choice of empowerment practices. This paper brings transaction costs logic to examine under what conditions empowerment practices will be chosen as an optimal organizational arrangement for employee–employer exchanges. Managers informed by such an economic way of thinking can make appropriate decisions in relation to the degree of empowerment practices in their organizations.

Second, our model helps managers to ascertain the contingencies under which empowerment practices will lead to good performance. The TCE rationale is that empowerment practices as a type of work organization may or may not improve organizational performance. Only when certain employee–employer exchange characteristics are matched with an appropriate degree of empowerment practices can organizations achieve optimal performance. Specifically, our empirical results suggest that managers should adopt a high degree of empowerment practices to match a high degree of performance ambiguity and human asset specificity within the firm. The findings also suggest that even when there is a low degree of

performance ambiguity and human asset specificity, firms can still consider adopting empowerment practices for motivational benefits. Our findings thus provide a strong business case for adopting empowerment practices to complement the normative case in the current empowerment research.

### **3.6.3 Limitations and future research**

The paper has a number of limitations, which also offer avenues for future research. First, the cross-sectional research design from one source limits the extent to which causal relationships can be established from our findings. The TCE logic of linking specific exchange attributes to organizational arrangements might be reversed in the context of work organization. For example, it is possible that it is the adoption of empowerment practices that leads to more investments in specialized human assets (Chabaud, 2000). In other words, human asset specificity may be the outcome (rather than the condition) of the firm's choice of empowerment. This study does not adopt this non-TCE argument in our model and hypotheses development, but this study recognizes the causal link between human asset specificity and empowerment practices may be framed in both directions. This is also true for the relationship between empowerment practices and organizational performance. It is plausible that organizations with a high level of performance are more resourceful and better positioned to invest in empowerment practices. Future research adopting longitudinal designs with multiple sources of data would be better suited to establish the causal relationship between these variables.

Second, this study did not find support for our Hypothesis that firms with matched performance ambiguity/human asset specificity and empowerment practices will perform better than firms with low performance ambiguity/human asset specificity together with a high degree of empowerment practices. A possible reason might be that this study did not control for the motivational effect when studying the impact of empowerment on performance. Our paper is built exclusively on transaction costs logic. However, empowerment practices may motivate employees to contribute to organizational performance and such motivational benefits might

cancel or outweigh the transaction costs in the employee–employer exchanges. This study calls for future research to integrate TCE and other theoretical approaches (e.g. psychological/motivational perspectives) to present a more comprehensive study of the relationships between empowerment practices and organizational performance.

Last, this study had a small sample size of 99 multinational subsidiaries in China which may limit the generalizability of the research findings. Moreover, it may be difficult to obtain statistically significant results for some hypotheses. Future research should collect more data to test the hypotheses in different contextual settings.

## References

- Aiken, L. S., & West, S. G. (1991). *Multiple regression: Testing and interpreting interactions*. Newbury Park, CA: Sage.
- Alchian, A. A., & Demsetz, H. (1972). Production, information costs, and economic organization. *The American Economic Review*, 62(5), 777-795.
- Aycan, Z., Kanungo, R., Mendonca, M., Yu, K., Deller, J., Stahl, G., & Kurshid, A. (2000). Impact of culture on human resource management practices: A 10-country comparison. *Applied Psychology*, 49(1), 192-221.
- Bae, J., & Lawler, J. J. (2000). Organizational and HRM strategies in Korea: Impact on firm performance in an emerging economy. *Academy of Management Journal*, 43(3), 502-517.
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99-120.
- Blanchard, K. H., Carlos, J. P., & Randolph, W. A. (1995). *The 3 keys to empowerment*. San Francisco, CA: Berett-Koehler.
- Birdi, K., Clegg, C., Patterson, M., Robinson, A., Stride, C. B., Wall, T. D., & Wood, S. J. (2008). The impact of human resource and operational management practices on company productivity: A longitudinal study. *Personnel Psychology*, 61(3), 467-501.
- Boselie, P., Dietz, G., & Boon, C. (2005). Commonalities and contradictions in HRM and performance research. *Human Resource Management Journal*, 15(3), 67-94.
- Bowen, D. E., & Lawler, E. E. (1992). Empowering service employees: What, why, how, and when. *Sloan Management Review*, 33(3), 31-39.
- Brown, J. A., Gianiodis, P. T., & Santoro, M. D. (2015). Following Doctors' Orders: Organizational Change as a Response to Human Capital Bargaining Power. *Organization Science*, 26(5), 1284-1300.

- Cappelli, P., & Neumark, D. (2001). Do “high-performance” work practices improve establishment-level outcomes? *Industrial & Labor Relations Review*, 54(4), 737-775.
- Chabaud, D. (2000). Asset specificity, work organization and mode of command. In C. Mernard (Ed.), *Institutions, Contracts and Organizations Perspectives from New Institutional Economics* (pp. 349-366). Cheltenham, UK: Edward Elgar.
- Cohen, J., & Cohen, P. (1983). *Applied multiple regression/correlation analysis for the behavioral sciences* (Eds.). Hillsdale, NJ: Erlbaum.
- Combs, J. G., & Ketchen Jr, D. J. (1999). Explaining interfirm cooperation and performance: toward a reconciliation of predictions from the resource-based view and organizational economics. *Strategic Management Journal*, 20(9), 867-888.
- Conger, J. A., & Kanungo, R. N. (1988). The empowerment process: Integrating theory and practice. *Academy of Management Review*, 13(3), 471-482.
- Datta, D. K., Guthrie, J. P., & Wright, P. M. (2005). Human resource management and labor productivity: does industry matter? *Academy of Management Journal*, 48(1), 135-145.
- Delaney, J. T., & Huselid, M. A. (1996). The impact of human resource management practices on perceptions of organizational performance. *Academy of Management journal*, 39(4), 949-969.
- Evans, W. R., & Davis, W. D. (2005). High-performance work systems and organizational performance: The mediating role of internal social structure. *Journal of Management*, 31(5), 758-775.
- Farh, J.-L., & Cheng, B.-S. (2000). A cultural analysis of paternalistic leadership in Chinese organizations. In J. T. Li, A.S. Tsui, & E. Weldon (Eds.), *Management and Organizations in the Chinese Context* (pp. 94-129). London, UK: MacMillan.
- Frese, M., Kring, W., Soose, A., & Zempel, J. (1996). Personal initiative at work: Differences between East and West Germany. *Academy of Management Journal*, 39(1), 37-63.
- Ghoshal, S., & Moran, P. (1996). Bad for practice: A critique of the transaction cost theory. *Academy of Management Review*, 21(1), 13-47.

- Gibson, C. B., Porath, C. L., Benson, G. S., & Lawler, E. E. (2007). What results when firms implement practices: The differential relationship between specific practices, firm financial performance, customer service, and quality. *Journal of Applied Psychology*, 92(6), 1467-1480.
- Hackman, J. R., & Oldham, G. R. (1976). Motivation through the design of work: Test of a theory. *Organizational Behavior and Human Performance*, 16(2), 250-279.
- Hansen, N. K., & Alewell, D. (2013). Employment systems as governance mechanisms of human capital and capability development. *The International Journal of Human Resource Management*, 24(11), 2131-2153.
- Huselid, M. A. (1995). The impact of human resource management practices on turnover, productivity, and corporate financial performance. *Academy of Management Journal*, 38(3), 635-672.
- Huselid, M. A., & Becker, B. E. (2011). Bridging micro and macro domains: Workforce differentiation and strategic human resource management. *Journal of Management*, 37(2), 421-428.
- Jiang, K., Lepak, D. P., Hu, J., & Baer, J. C. (2012). How does human resource management influence organizational outcomes? A meta-analytic investigation of mediating mechanisms. *Academy of Management Journal*, 55(6), 1264-1294.
- Jiang, Y., Colakoglu, S., Lepak, D. P., Blasi, J. R., & Kruse, D. L. (2015). Involvement work systems and operational effectiveness: Exploring the moderating effect of national power distance. *Journal of International Business Studies*, 46(3), 332-354.
- Kanter, R. M. (1977). *Men and women of the corporation*. New York, NY: Basic Books.
- Kaufman, B. E. (2003). High-level employee involvement at Delta Air Lines. *Human Resource Management*, 42(2), 175-190.
- Kaufman, B. E. (2012). Strategic human resource management research in the United States: A failing grade after 30 years? *Academy of Management Perspectives*, 26(2), 12-36.

- Kaufman, B. E. (2015). Market competition, HRM, and firm performance: The conventional paradigm critiqued and reformulated. *Human Resource Management Review*, 25(1), 107-125.
- Kim, D.-O. (2005). The benefits and costs of employee suggestions under gainsharing. *Industrial & Labor Relations Review*, 58(4), 631-652.
- Lawler, E. E., Mohrman, S. A., & Benson, G. (2001). *Organizing for high performance: Employee involvement, TQM, reengineering, and knowledge management in the Fortune 1000: The CEO report*. San Francisco, CA: Jossey-Bass.
- Lawler, E. E., Mohrman, S. A., & Ledford, G. E. (1992). *Employee involvement and total quality management: Practices and results in Fortune 1000 companies*. San Francisco, CA: Jossey-Bass.
- Lepak, D. P., & Snell, S. A. (1999). The human resource architecture: Toward a theory of human capital allocation and development. *Academy of management Review*, 24(1), 31-48.
- Lorinkova, N., Pearsall, M., & Sims, H. (2012). Examining the differential longitudinal performance of directive versus empowering leadership in teams. *Academy of Management Journal*, 56(2), 573-596.
- Masten, S. E., Meehan, J. W., & Snyder, E. A. (1991). The costs of organization. *Journal of Law, Economics, & Organization*, 7(1), 1-25.
- Maynard, M. T., Gilson, L. L., & Mathieu, J. E. (2012). Empowerment-fad or fab? A multilevel review of the past two decades of research. *Journal of Management*, 38(4), 1231-1281.
- Menard, C. (1997). Internal characteristics of formal organizations. In C. Mernard (Ed). *Transaction Cost Economics: Recent Developments* (pp. 30-58). Cheltenham, UK: Edward Elgar.
- Ngo, H.-Y., Foley, S., Loi, R., & Zhang, L. Q. (2011). Factors affecting the adoption of high performance work systems in foreign subsidiaries: An empirical investigation in Hong Kong. *International Journal of Employment Studies*, 19(2), 1-32.

- Ouchi, W. G. (1980). Markets, bureaucracies, and clans. *Administrative Science Quarterly*, 25(1), 129-141.
- Patel, P. C., & Cardon, M. S. (2010). Adopting HRM practices and their effectiveness in small firms facing product-market competition. *Human Resource Management*, 49(2), 265-290.
- Pfeffer, J. (1995). *Competitive advantage through people: Unleashing the power of the work force*. Boston, MA: Harvard Business Press.
- Pierce, J. L., & Furo, C. A. (1991). Employee ownership: Implications for management. *Organizational Dynamics*, 18(3), 32-43.
- Pierce, J. L., Jussila, I., & Cummings, A. (2009). Psychological ownership within the job design context: revision of the job characteristics model. *Journal of Organizational Behavior*, 30(4), 477-496.
- Pierce, J. L., Kostova, T., & Dirks, K. T. (2003). The state of psychological ownership: Integrating and extending a century of research. *Review of General Psychology*, 7(1), 84-107.
- Pierce, J. L., O'driscoll, M. P., & Coghlan, A.M. (2004). Work environment structure and psychological ownership: The mediating effects of control. *The Journal of Social Psychology*, 144(5), 507-534.
- Podsakoff, P. M., MacKenzie, S. B., Lee, J.Y. & Podsakoff, N. P. (2003). Common Method Biases in Behavioral Research: A Critical Review of the Literature and Recommended Remedies. *Journal of Applied Psychology*, 88(5), 879-903.
- Randolph, W. A. (1995). Navigating the journey to empowerment. *Organizational Dynamics*, 23(4), 19-32.
- Robbins, T. L., Crino, M. D., & Fredendall, L. D. (2002). An integrative model of the empowerment process. *Human Resource Management Review*, 12(3), 419-443.
- Riordan, C. M., Vandenberg, R. J., & Richardson, H. A. (2005). Employee involvement climate and organizational effectiveness. *Human Resource Management*, 44(4), 471-488.



- Russell, R. (1985). Employee ownership and internal governance. *Journal of Economic Behavior & Organization*, 6(3), 217-241.
- Seibert, S. E., Silver, S. R., & Randolph, W. A. (2004). Taking empowerment to the next level: A multiple-level model of empowerment, performance, and satisfaction. *Academy of Management Journal*, 47(3), 332-349.
- Sherer, P. D., & Lee, K. (2002). Institutional change in large law firms: A resource dependency and institutional perspective. *Academy of Management Journal*, 45(1), 102-119.
- Shepherd, W. G. 1975. *A treatment of market power*. New York, NY: Columbia University Press.
- Spencer, D. A. (2013). Barbarians at the gate: A critical appraisal of the influence of economics on the field and practice of HRM. *Human Resource Management Journal*, 23(4), 346-359.
- Su, Z.-X., Wright, P. M., & Ulrich, M. D. (2015). Going Beyond the SHRM Paradigm Examining Four Approaches to Governing Employees. *Journal of Management*. Advance online publication.
- Sun, L.-Y., Aryee, S., & Law, K. S. (2007). High-performance human resource practices, citizenship behavior, and organizational performance: A relational perspective. *Academy of Management Journal*, 50(3), 558-577.
- Tzabbar, D., Tzafrir, S., & Baruch, Y. (2016). A bridge over troubled water: Replication, integration and extension of the relationship between HRM practices and organizational performance using moderating meta-analysis. *Human Resource Management Review*, 27(1), 134-148.
- Vázquez, X. H. (2004). Allocating decision rights on the shop floor: A perspective from transaction cost economics and organization theory. *Organization Science*, 15(4), 463-480.
- Venkatraman, N. (1989). The concept of fit in strategy research: Toward verbal and statistical correspondence. *Academy of management review*, 14(3), 423-444.

- Wall, T. D., Cordery, J. L., & Clegg, C. W. (2002). Empowerment, performance, and operational uncertainty: A theoretical integration. *Applied Psychology: An International Review*, 51(1), 146-169.
- Wang, D., Tsui, A. S., Zhang, Y., & Ma, L. (2003). Employment relationships and firm performance: Evidence from an emerging economy. *Journal of Organizational Behavior*, 24(5), 511-535.
- Williamson, O. E. (1975). Markets and hierarchies. New York, NY: Macmillan.
- Williamson, O. E. (1979). Transaction-cost economics: The governance of contractual relations. *Journal of Law and Economics*, 22(2), 233-261.
- Williamson, O. E. (1985). The economic institutions of capitalism. New York, NY: Macmillan.
- Wood, S., BurrIDGE, M., Rudloff, D., Green, W., & Nolte, S. (2015). Dimensions and location of high-involvement management: Fresh evidence from the UK Commission's 2011 Employer Skills Survey. *Human Resource Management Journal*, 25(2), 166-183.
- Wood, S. J., & Wall, T. D. (2007). Work enrichment and employee voice in human resource management-performance studies. *The International Journal of Human Resource Management*, 18(7), 1335-1372.
- Wright, P. M., Dunford, B. B., & Snell, S. A. (2001). Human resources and the resource based view of the firm. *Journal of Management*, 27(6), 701-721.
- Wright, P. M., & McMahan, G. C. (1992). Theoretical perspectives for strategic human resource management. *Journal of Management*, 18(2), 295-320.
- Zhang, X., & Bartol, K. M. (2010). Linking empowering leadership and employee creativity: The influence of psychological empowerment, intrinsic motivation, and creative process engagement. *Academy of Management Journal*, 53(1), 107-128.

## **Chapter 4 (Study 3)**

### **Employee empowerment practices and knowledge transfer: The role of individual-level mechanisms**

A slightly different version of this chapter will be submitted to *The International Journal of Human Resource Management*

## **Abstract**

Research on human resource management (HRM) practices and knowledge transfer has begun to explore individual-level mechanisms and employee motivation has been viewed as critical for uncovering these mechanisms. Drawing on psychological empowerment literature, this paper proposes psychological empowerment as a key individual-level mechanism linking HRM and knowledge transfer. Based on a sample of 331 employees from 40 multinational enterprises (MNEs) subsidiaries in China, results of hierarchical linear modelling indicate that employee perceived empowerment practices mediate the relationship between employee empowerment practices and psychological empowerment. Psychological empowerment, in turn, is positively related to knowledge sharing that collectively contributes to knowledge transfer. Overall, these findings shed new light on the individual-level mechanisms through which employee empowerment practices influence knowledge transfer.

**Keywords:** employee empowerment practices; employee perceived empowerment practices; knowledge sharing; psychological empowerment

## 4.1 Introduction

Following knowledge-based view (KBV) of the firm, knowledge stocks and flows within organizations have been viewed as a key determinant of organizational competitive advantage (Argote & Ingram, 2000; Grant, 1996; Kogut & Zander, 1993). Intraorganizational knowledge transfer is a central knowledge process that aims to harness the knowledge resources that already exists within the organization (Lindenberg & Foss, 2011; Osterloh & Frey, 2000; Spender, 1996). Research from different sub-disciplines in management has explored various factors that enhance knowledge transfer process (Davenport, De Long, & Beers, 1998; Jansen, Van Den Bosch, & Volberda, 2005; Osterloh & Frey, 2000). In line with this trend, human resource management (HRM) scholars have examined the effects of different HRM practices (e.g. employee empowerment practices) on knowledge transfer (Brewster, Suutari, & Minbaeva, 2005; Collins & Smith, 2006; Lepak & Snell, 1999, 2002; Minbaeva, 2013; Wright, Dunford, & Snell, 2001). While this stream of research makes important contributions with respect to bringing a knowledge perspective into HRM (Minbaeva, Foss, & Snell, 2009), several important issues merit further investigation.

First, current research on the relationship between HRM practices and knowledge transfer has concentrated on an organizational-level of analysis, and the individual actions and interactions that underlie this relationship have been largely ignored (Felin, Foss, & Ployhart, 2015; Minbaeva, 2013). Yet, understanding these individual-level mechanisms is vitally important as knowledge, especially tacit knowledge, is embedded in individual members (Argote & Ingram, 2000). Therefore, organizational-level heterogeneity in knowledge processes cannot be fully understood without taking account of individual heterogeneity (Felin & Hesterly, 2007). Furthermore, from a philosophical point of view, the relationship between macro variables (i.e. organizational-level variables) tends to be mediated by micro variables (i.e. individual-level variables) in that these explanations are more stable and fundamental than macro-level analysis (Coleman, 1986). Consequently, scholars call for more research on the

micro-foundations of HRM and knowledge processes, and, more generally, the micro-foundations of KBV in strategic management (Abell, Felin, & Foss, 2008; Foss, 2011; Minbaeva et al., 2009).

Second, while several studies emphasize the individual's motivation as the key to understanding the individual-level mechanisms between HRM-knowledge link, they are centred on employees' intrinsic motivation (Foss, Minbaeva, Pedersen, & Reinholt, 2009; Minbaeva, Mäkelä, & Rabbiosi, 2012; Osterloh & Frey, 2000). Specifically, these studies have argued HRM practices enable employees to find knowledge sharing interesting, enjoying and stimulating, which in turn promotes employees to share knowledge for its own sake (Foss et al., 2009; Lindenberg & Foss, 2011; Minbaeva et al., 2012). Although intrinsic motivation provides valuable insights into the role of need satisfaction (i.e. employees' passion and enjoyment to share knowledge) to contribute to knowledge sharing, it does not ensure that employees will share knowledge for other employees' needs or for achieving organizational goals (Gagné, 2009; Lindenberg & Foss, 2011). Put differently, employees are not motivated to share knowledge in a goal oriented way (Osterloh & Frey, 2000). Additionally, as Wang and Noe (2010) observe, traditional cognitive motivational theories have not often been deployed in knowledge sharing research. Drawing on psychological empowerment literature (Bandura, 1977, 1982; Conger & Kanungo, 1988; Thomas & Velthouse, 1990), this study proposes psychological empowerment, a cognitive motivation construct, as a critical individual-level mechanism linking HRM and knowledge transfer (Conger & Kanungo, 1988; Thomas & Velthouse, 1990).

Third, related to the above issue, previous literature has tended to view intrinsic motivation as the individual mechanism of a bundle of HRM practices and knowledge processes (Minbaeva et al., 2012). However, this view may be simplistic as different HRM practices may have different or even contradictory effects on employees' intrinsic motivations. Treating different HRM practices as a global construct may confound the underlying individual-level mechanisms between HRM and knowledge processes. Indeed, recent empirical research has shown that different HRM practices affect knowledge processes through distinctive individual mechanisms

(Andreeva & Sergeeva, 2016). This study focuses on employee empowerment practices that have particular relevance for psychological empowerment (detailed below).

The remainder of the paper is structured as follows. The next section provides the theoretical background of individual-level mechanisms linking HRM practices and knowledge transfer and then proposes a conceptual framework for this research. Based on the conceptual framework, the study then develops a set of related hypotheses. The method section describes the sample characteristics and measurement, followed by statistical analysis results and discussion of the implication of the findings. Finally, the limitations of this study are discussed and directions for future research are suggested.

## **4.2 Theoretical Background and Hypotheses**

Knowledge plays a critical role in creating value for firms in an increasingly competitive economic environment (Argote & Ingram, 2000; Grant, 1996). How to effectively deploy and transfer knowledge within organizations is a growing concern for firms (Doz, Santos, & Williamson, 2001). HRM scholars have proposed that various HRM practices can increase knowledge transfer at the organizational level (Collins & Smith, 2006; Kang, Morris, & Snell, 2007; Minbaeva, Pedersen, Björkman, Fey, & Park, 2003; Wright et al., 2001). For example, Kang (2007) has examined how different HRM systems affect knowledge flows in various employment modes. Minbaeva (2003) has asserted that HRM practices can enhance knowledge transfer between different units in organizations via increased absorptive capacity. While this research demonstrates a causal relationship between HRM practices and knowledge transfer, the emphasis on the collective-level HRM-knowledge link has ignored underlying individual mechanisms of the relationship (Argote & Ingram, 2000; Felin, Zenger, & Tomsik, 2009). Consequently, there is an increasing interest in individual actions and interactions underlying the HRM-knowledge relationship (Foss, 2011; Minbaeva et al., 2009; Minbaeva et al., 2012).

Responding to calls for micro-foundations of knowledge-based competitive advantage, several studies have explored individual mechanisms of the HRM-knowledge relationship such

as employees' abilities, intrinsic and extrinsic motivation, and social interactions (Andreeva & Sergeeva, 2016; Minbaeva, 2013; Minbaeva et al., 2012). Given the interdependent characteristics of knowledge work, how to motivate human resources to share knowledge poses particular challenges (Foss, 2011; Gagné, 2009). As knowledge sharing behaviour is difficult to motivate by external rewards (Frey, 1993), intrinsic motivation has attracted much research attention (Minbaeva, 2013). This line of research posits that when employees view their jobs as interesting, enjoying, and consistent with their internal needs and desires, they are more likely to engage in knowledge sharing behaviour (Andreeva & Sergeeva, 2016; Minbaeva et al., 2012).

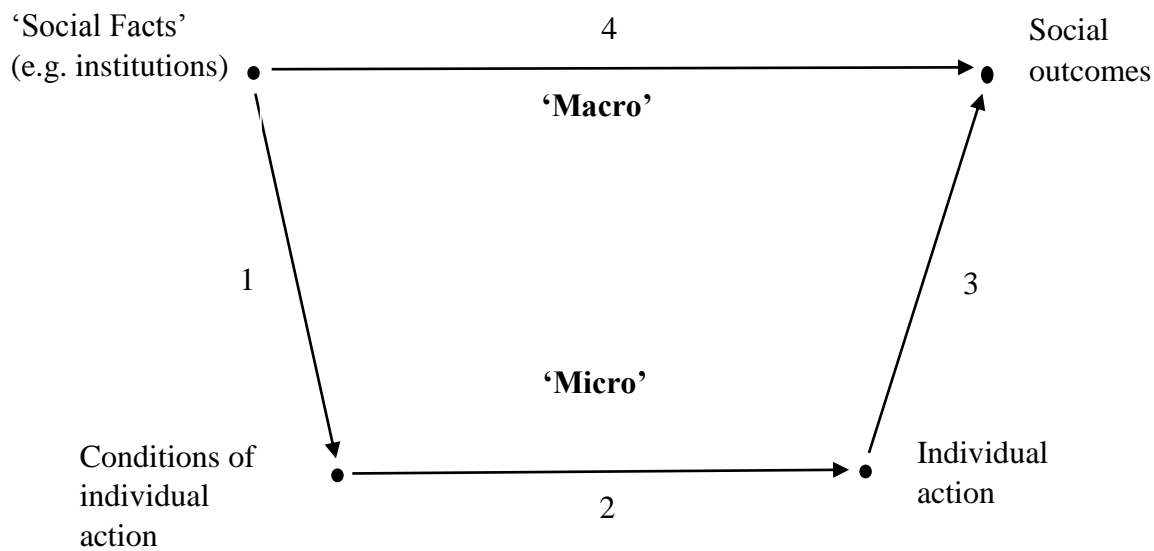
Introducing intrinsic motivation provides valuable insights of how employees' hedonic needs satisfaction motivates them to share knowledge (Lindenberg & Foss, 2011). However, it does not capture how to motivate employees to share knowledge for achieving organizational goals. Knowledge sharing, in this regard, is an intentional behaviour and should take into account employees' thoughts or cognitive processes (Gagné, 2009). It is surprising that traditional cognitive motivation theory has not often been utilized to inform the research of knowledge sharing (Wang & Noe, 2010). Drawing on psychological empowerment literature which has its theoretical roots in cognitive motivation theory (Bandura, 1997; Lawler, 1973; Thomas & Velthouse, 1990), this study aims to examine psychological empowerment as an individual-level mechanism of the HRM-knowledge relationship. It should be noted at this point that, this study uses knowledge sharing to capture the movement of knowledge on the individual level and knowledge transfer to refer to organizational-level knowledge flows.

As this study proceeds to articulate how psychological empowerment links empowerment practices and knowledge transfer, this study invokes Foss's (2007) analytical framework, which was based on Coleman's (1990) work, to inform our hypothesis development (see Figure 4.1). This framework integrates macro and micro level analysis. It suggests that in order to explain a collective phenomenon (social outcomes, located in the upper right hand corner of Figure 4.1), identifying a collective construct and related mechanism (Arrow 4) is not adequate. More importantly, there is a need to take into account the micro causal mechanisms as depicted by



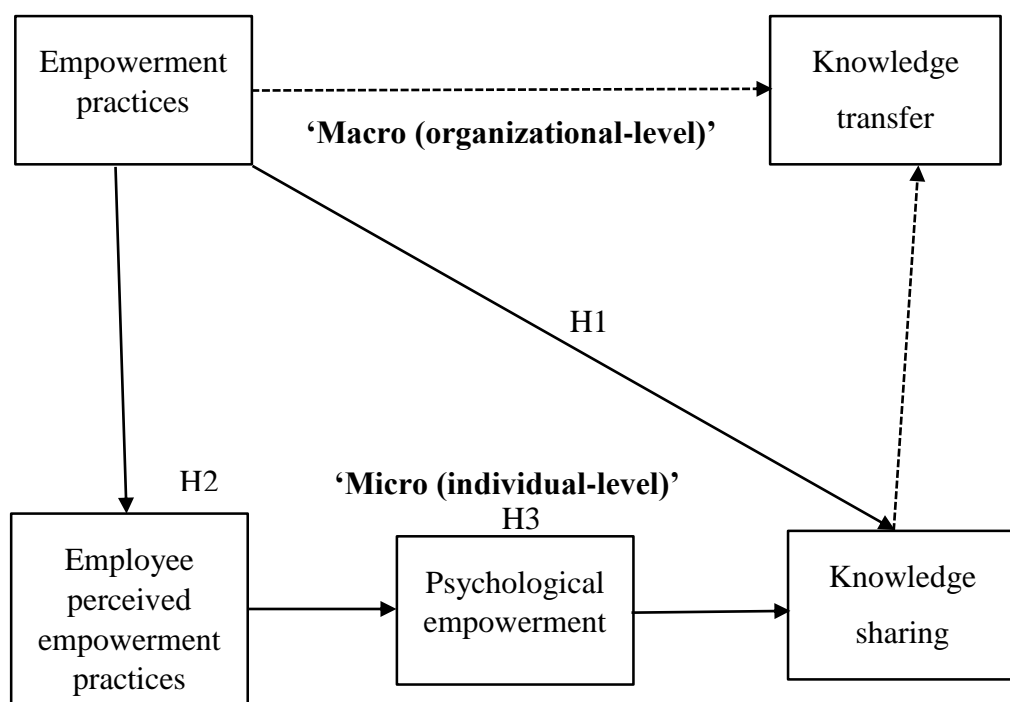
Arrows 1, 2 and 3. More specifically, a macro-level phenomenon is explained by the aggregation or emergence of lower-level individual actions and interactions. These individual actions and interactions are determined by the conditions of individual actions, which in turn are influenced by macro-level contextual factors. In the case of HRM practices and knowledge transfer research, the existing literature tends to focus on the collective level HRM practices and knowledge transfer (Arrow 4) and pays less attention to the individual actions and interactions mediating the macro-level process (Arrow 1, 2 and 3). As noted earlier, the relationship between empowerment practices and knowledge transfer (Arrow 4) has been the focus of previous studies (Collins & Smith, 2006; Foss, 2007; Kang et al., 2007; Minbaeva et al., 2003). For instance, Foss (2007) posited that organizational-level empowerment practices promote intraorganizational knowledge transfer. Likewise, Minbaeva (2003) found that HRM practices facilitating empowerment are positively related to MNEs' absorptive capacity and knowledge transfer. Following the work by Minbaeva et al. (2012) on investigating individual-level mechanisms, this study does not theorize and test this macro-level relationship but rather proposes and tests the individual-level mechanisms of empowerment practices and knowledge transfer. Based on Foss's (2007) analytical framework, a conceptual framework that links empowerment practices and knowledge transfer through individual mechanisms is developed for this study (see Figure 4.2).

For the following hypothesis development, this study first explores the general nature of employee empowerment practices as they relate to individual-level knowledge sharing. Next, this study investigates how employee perceived empowerment practices mediate the relationship between empowerment practices and psychological empowerment. Finally, the links between employee perceived empowerment practices, psychological empowerment, and knowledge sharing are examined.



**Figure 4.1. A General Model of Social Science Explanation**

Source: adapted from Coleman (1990)



**Figure 4.2. Conceptual Framework of Individual-level Mechanisms between Empowerment Practices and Knowledge Transfer**

#### **4.2.1 Employee empowerment practices and knowledge sharing**

Consistent with Study 2, this study adopts Seibert et al.'s (2004) conceptualization of employee empowerment practices as a construct consisting of three interrelated organizational practices: information sharing, autonomy through boundaries and team accountability. Empowerment practices represent a social structural perspective on empowerment that emphasizes organizational practices to enable lower-level employees to experience self-control at work. Knowledge sharing is defined as "the provision of task information and know-how to help others and to collaborate with others to solve problems, develop new ideas, or implement policies or procedures" (Wang & Noe, 2010, p. 117). Knowledge sharing can occur in a variety of ways including face to face communications, written correspondence, and networking with other experts (Cummings, 2004).

Employee empowerment practices are likely to influence knowledge sharing through the organization's social climate, that is, the norms and values that govern employees' interactions at work (Ashkanasy, Wilderom, & Peterson, 2000; Bowen & Ostroff, 2004). Empowerment practices facilitates a social climate such as trust and cooperation (Bowen & Ostroff, 2004), which promotes employees' engagement in knowledge sharing. Specifically, empowerment practices foster higher trust between employees through the use of autonomous team structures (Lawler, 1995). Trust enhances employees' beliefs that sharing knowledge with others will be reciprocated (Coleman, 1990), leading to increasing interaction and knowledge sharing between employees. Likewise, empowerment practices such as information sharing increase the norm of cooperation by emphasizing shared values and norms (Tsui, Pearce, Porter, & Tripoli, 1997). The norm of cooperation tends to reduce the competition among employees and facilitates knowledge sharing. Empirical research has suggested that empowerment-related HR practices such as high performance work system can enhance employees' knowledge sharing behaviour (Foss, 2007; Foss et al., 2009; Minbaeva et al., 2012). Based on these arguments, it is expected that:

*Hypothesis 1:* Empowerment practices are positively associated with employees' knowledge sharing behaviour.

#### **4.2.2 Employee empowerment practices and psychological empowerment: the mediating role of employee perceived empowerment practices**

As discussed earlier, a social structural perspective of empowerment focuses on organizational practices such as information sharing and team accountability that facilitate transfer of decision-making authority to lower-level employees. While this perspective highlights the facilitating organizational environment, it stops short of taking account of employees' experiences of empowerment (Conger & Kanungo, 1988). To complement the social structural perspective of empowerment, the concept of psychological empowerment emerges and views empowerment as experienced by employees. Conger and Kanungo (1988) conceptualized psychological empowerment as psychological enabling or a process of enhancing employees' feelings of self-efficacy. Thomas and Velthouse (1990) considered power as energy and empowerment as energising. Building on these two pioneer studies, Spreitzer (1995) defined psychological empowerment as a motivational construct manifested in four cognitions toward one's work role (Spreitzer, 1995; Thomas & Velthouse, 1990). These four cognitions are: (1) meaning, or the extent to which the value of a work goal can energise employees toward achieving these goals; (2) self-determination, or employees' perceptions of control and autonomy over their work processes and activities; (3) competence, or self-efficacy which refers to the belief in one's ability to perform work activities with skill; (4) impact, which indicates the degree to which individuals have influence over work outcomes. From the expectancy theory perspective (Lawler, 1973), meaning reflects an outcome valence, competence - an effort-performance expectancy, and impact - a performance-outcome expectancy. Self-determination represents the perceived opportunities to make decisions (Thomas & Velthouse, 1990).

As the initial conceptualization of psychological empowerment has its heritage in empowerment practices and is mainly concerned with restructuring the work environment to

foster employees' feelings of empowerment (Spreitzer, 1995), it is reasonable to expect that empowerment practices give rise to psychological empowerment. More specifically, autonomy through boundaries allocates substantial decision-making power for employees to exercise job discretion. This therefore enables employees to experience self-determination and impact. The information-sharing practices tend to enhance employees' better understanding of the meaning and value of their work and feelings that they have impacts on their organizations. The team accountability involves team-based work structures that hold accountability for work outcomes. These practices should be associated with employees' feelings of competence and impact at work. Taken together, it is expected that empowerment practices are positively related to psychological empowerment. However, this study further proposes this relationship to be indirect through employee perceived empowerment practices.

Focusing on individual employees as a micro-foundation for knowledge transfer indicates that special attention should be paid to employees' actual perceptions of empowerment practices. The strategic HRM literature has been criticized for overemphasis on the managerial perspective of HRM practices (Kehoe & Wright, 2013; Liao, Toya, Lepak, & Hong, 2009). However, recent theory and empirical evidence has pointed out a disconnection between the managements' perception and employees' actual perception of empowerment practices due to different interpretive styles (Thomas & Velthouse, 1990). Therefore, this study introduces the concept of employee perceived empowerment practices as a reflection of employees' perception as opposed to managements' perception of the work environment. Employee perceived empowerment practices should usefully be differentiated from psychological empowerment in that psychological empowerment is a cognitive motivational construct and employee perceived empowerment practices represent the first stage of a person/environment interaction which causes subsequent cognitions and behaviours (Robbins et al., 2002). Employee perceived empowerment practices may act as a pathway through which the presence of empowerment practices affect individual's motivations and behaviours (Aryee, Walumbwa, Seidu, & Otaye, 2012). The social information perspective suggests that the higher degree of

empowerment practices implemented by management, the more salient and visible empowerment practices become (Salancik & Pfeffer, 1978). As a result, employees are likely to perceive a higher degree of empowerment practices in place. Based on this rationale, it is logical to expect that empowerment practices positively relate to employee perceived empowerment practices.

The psychological empowerment literature suggests that for individuals to experience psychological empowerment, they must perceive an organizational environment to be liberating rather than constraining (Conger & Kanungo, 1988). Employee perception of empowerment practices such as information sharing, autonomy through boundaries, and team accountability, directly enables employees to view their work environment as liberating which facilitates psychological empowerment. Specifically, when employees perceive sharing information about organizational goals, performance, and productivity, they will see the “big picture” with respect to how their work roles fit into the larger goals of the organizations. As such, employees may perceive their work as personally meaningful (Conger & Kanungo, 1988). Similarly, when employees perceive substantial job autonomy in terms of how to organize work methods and sequences to perform the job, they tend to experience higher degrees of self-determination. Meanwhile, as employees possess a greater degree of control and responsibility for their work, they are likely to experience a sense of personal ownership of the work outcomes. Consequently, employees’ perceptions of job autonomy through boundaries enhances the cognition of impact at work. Finally, if employees perceive that team accountability emphasizes individual initiative as well as effective teamwork, it fosters a higher degree of individual enactive mastery (Bandura, 1982), leading to employees’ cognition of competence. Previous research has suggested that elements of employee perceived empowerment practices promoted psychological empowerment (Liden, Wayne, & Sparrowe, 2000; Maynard, Gilson, & Mathieu, 2012; Spreitzer, 1995). Thus, it is expected that employee perceived empowerment practices are positively related to psychological empowerment.

The preceding arguments suggest that empowerment practices positively affect employee perceived empowerment practices and both positively affect psychological empowerment. Employee perceived empowerment practices is the first stage in the person/environment interaction, which, in turn, is placed into an individualized framework to influence other psychological outcomes such as psychological empowerment (Kehoe & Wright, 2013). Put differently, employee perceived empowerment practices are more proximal and predictive of psychological empowerment than the mere presence of empowerment practices. Taken together, it is proposed that:

*Hypothesis 2:* Employee perceived empowerment practices mediates the influence of empowerment practices on psychological empowerment.

#### **4.2.3 Employee perceived empowerment practices and knowledge sharing: the mediating role of psychological empowerment**

Recent theoretical development in HRM has posited that HRM practices influence employees' attitudes and behaviours through a signalling effect regarding "what is important and what behaviours are expected" (Bowen & Ostroff, 2004, p. 205). This signalling effect is dependent upon the strength of the HRM system. Under a strong HRM system, individual employees are more likely to internalize the organization's values and norms and consequently behaving as the organization expects (Schneider, 1990). In the context of empowerment practices, when employees perceive a high degree of information sharing, enhanced work autonomy, and self-managing teams, they may form the view that sharing knowledge is valued by the organization. Accordingly, they are more likely to behave in ways that are aligned with the norms and expectations of the organization (i.e. desired knowledge sharing). Put differently, they tend to engage in knowledge sharing behaviour to the extent that empowerment practices signal the importance and valuableness of the knowledge sharing activities. In contrast, when employees perceive a lower degree of empowerment practices, they are unlikely to feel the

organization's commitment to knowledge sharing, which will discourage them from engaging in knowledge sharing behaviour. Previous studies have suggested that employee-perceived work autonomy is related to knowledge sharing behaviour (Cabrera, Collins, & Salgado, 2006; Foss et al., 2009). Therefore, employee perceived empowerment practices positively influence knowledge sharing. However, this study further expects the impact of employee perceived empowerment practices on knowledge sharing to be indirect through psychological empowerment.

Conceptually, a case can be made between psychological empowerment and knowledge sharing. Knowledge sharing often involves mutually exchanging knowledge among individuals and synergistic collaboration of individuals toward a common goal (Cabrera & Cabrera, 2002). Psychological empowerment, by its definition, means that employees are energized by viewing themselves as a part of a valued cause of the organization. If employees experience psychological empowerment, they are willing to do what it takes to achieve organizational goals (Burke, 1986). As knowledge sharing plays a critical role in an organization's success (Spender, 1996), psychological empowerment promotes employees to engage in knowledge sharing behaviour to achieve organizational goals. Besides, since knowledge sharing requires employees' collaboration, it shares similarities with many other voluntary behaviours, such as organizational citizenship behaviour (OCB) (Frey, 1993). Because psychologically empowered employees are more competent and autonomous, they are more likely to take initiative and collaborate with others (Thomas & Velthouse, 1990), leading to knowledge sharing behaviour. Empirical evidence has demonstrated that psychological empowerment has a positive effect on voluntary behaviours including OCB (Choi, 2007), creativity (X. Zhang & Bartol, 2010), and innovative behaviour (Spreitzer, 1995). The above arguments and empirical evidence suggest that the concept of psychological empowerment lends itself to facilitating knowledge sharing.

Furthermore, this study links each of the dimensions of psychological empowerment to knowledge sharing behaviour. A sense of self-determination over one's work is of great value to employees and they tend to find knowledge sharing activities interesting and stimulating



(Deci & Ryan, 2000). As a result, they will become absorbed and engaged in knowledge processes (Foss et al., 2009). In addition, social psychologists have demonstrated that individual's sense of competence significantly influences their engagement in specific courses of action (Bandura, 1997; Gist, 1987). When employees feel a sense of competence, they are more likely to engage in organizational goal-related behaviours within jobs with broadly defined roles (Parker, 1998). Since knowledge sharing is a proactive behaviour that is important for achieving organizational goals, an individual's sense of competence will lead to knowledge sharing behaviours. Furthermore, when employees find their jobs meaningful and valuable, they may spend greater effort on understanding a work problem and searching for more efficient ways to do their job using multiple sources of information. To do so, they are likely to share their knowledge and experiences with others to contribute to organizational goals (Gilson & Shalley, 2004). Finally, when employees believe that by completing the job, they have an impact on others within or outside of the organization, they may feel a high-level of responsibility for their job. Consequently, they tend to explore new ways to do their job and learn from other's experience, leading to knowledge sharing behaviour (X. Zhang & Bartol, 2010).

Taken together, the preceding discussion suggests that employee perceived empowerment practices positively relate to psychological empowerment and both positively relate to knowledge sharing. As employee cognitive motivation is more likely to directly influence employee behaviours than the perception of the work environment (Robbins et al., 2002), this study proposes that psychological empowerment act as a conduit through which employee perceived empowerment practices influences knowledge sharing. Thus, it is hypothesized that:

*Hypothesis 3:* Psychological empowerment mediates the influence of employee perceived empowerment practices on knowledge sharing.

#### **4.2.4 Individual knowledge sharing and organizational knowledge transfer**

Much argument has been made regarding the relationship between individual knowledge sharing and organizational knowledge transfer (Gooderham, Minbaeva, & Pedersen, 2011; Minbaeva, 2013; Nonaka, 1994). There is a consensus that organizational-level knowledge transfer is influenced by the extent to which knowledge sharing occurs between employees (Wang & Noe; 2010). Indeed, knowledge typically resides within individuals (Nonaka, 1994). However, there are particular challenges conceptualizing the aggregation from individual-level to collective-level. This process must take into account a high degree of interdependence of actions between individuals and potential conflicts and synergies (Minbaeva et al., 2012; Minbaeva, 2013). As Coleman (1986, p. 1323) noted, studying these complex mechanisms has proved to be the “main intellectual hurdle both for empirical research and for theory that treats macro-level relations via methodological individualism”. In this regard, following Minbaeva (2012), this study focuses on individual mechanisms and does not propose specific hypothesis with respect to the micro-macro link.

### **4.3 Method**

#### **4.3.1 Sample and procedure**

As with Study 2, data were collected from MNEs subsidiaries located in Shanghai, Suzhou, and Guangzhou in China. In addition to a large number of MNE subsidiaries operating in China as described in Study 2, this empirical setting was selected because knowledge sharing and transfer is a strategic priority for MNEs to innovate and gain a knowledge-based competitive advantage (Minbaeva et al., 2003). An increasing number of MNEs have located their R&D operations in China with the aim to leverage the knowledge resources of local employees (Y. Zhang & Begley, 2011). Furthermore, choosing this empirical setting is also consistent with previous research on the individual-level mechanisms between HRM-knowledge link that used data from MNEs (Minbaeva et al., 2012).

The data collection procedure (including the procedure for questionnaire translation) was the same with Study 1 except that data were collected from both HR managers and first line employees. 40 MNE subsidiaries in China agreed to participate in this research and provided organizational and individual level data. The HR managers were informed of the purpose and anonymous nature of the survey and were asked to randomly select ten first line employees to participate. Survey packages were sent to HR managers and randomly selected employees. Completed surveys were returned via self-sealed and prepaid envelopes included in the survey package to the researcher's address in China.

The HR manager from each participating firm completed a questionnaire requesting information about the measure of empowerment practices, measures relating to the number of employees, industry type, and firm age in terms of years of operation in China. Employees completed the survey outlining measures of employee perceived empowerment practices, psychological empowerment, knowledge sharing, and demographic information. Of the 40 questionnaires distributed to HR managers and 480 questionnaires distributed to employees, 40 HR manager surveys and 331 employee surveys were returned, representing a response rate of 100% and 69%, respectively. The sample characteristics are presented in Table 4.1.

Harman's single-factor test was utilized to check the potential common method bias (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003) for the employee-level data. All the variables were loaded into an exploratory factor analysis to test whether one single factor accounted for a majority of the covariance between the measures. The un-rotated factor solution suggested that one factor explained 30% variance, indicating that common method variance was not substantial.

### 4.3.2 Measures

#### *Empowerment practices*

Following Study 2<sup>1</sup>, this study employed the same measure for empowerment practices which was assessed by HR managers.

#### *Employee perceived empowerment practices*

As with manager's assessment of empowerment practices, this research used the same three-component index developed by Jiang et al. (2015) to measure employees' perceptions and understanding of empowerment practices. The employees were asked to rate the degree to which they experienced these practices. Information sharing ( $\alpha = 0.86$ ) was measured by four items and one sample item was: "the division's goals and direction have been made clear to me". Team accountability ( $\alpha = 0.81$ ) was measured by two items with one item as: "our company extensively use self-directed teams or work cells". These two components of information sharing and team accountability were assessed on a 7-point Likert scale ranging from 1 = "strongly disagree" to 7 = "strongly agree". The component of work autonomy through job boundaries ( $\alpha = 0.75$ ) was measured by three items asking how much involvement and direct influence employees had in "deciding how to do their job and organize the work", "setting goals for their work group or department", and "overall company decisions". This component was assessed on a 7-point Likert scale ranging from 1 = "none" to 7 = "very great extent". In line with the above measurement of manager's perceptions of empowerment practices in the established literature in HRM (Aryee et al., 2012; Bae & Lawler, 2000; Batt, 2001), the construct of employee perceived empowerment practices was also viewed as an additive index. The values of three components were averaged to create a unitary index of employee perceived empowerment practices.

---

<sup>1</sup> Refer to pp. 95-96

### *Psychological empowerment*

Psychological empowerment was measured with a 12-item scale developed by Spreitzer (1995), which has been used in China and shown to have strong psychometric properties (X. Zhang & Bartol, 2010). Sample items include “my work activities are personally meaningful to me”, “I am confident about my ability to do my job”, “I have considerable opportunity for independence and freedom in how I do my job” and “my impact on what happens in my department is large”. Response options ranged from 1= “strongly disagree”, to 7=“strongly agree”. The construct validity was tested using second-order confirmatory factor analysis (CFA) (AMOS 24, maximum likelihood). Four criteria were used to assess the model fit in CFA. First, the ratio of chi-square to degrees of freedom ( $\chi^2/df$ ) should be less than 5.0 (Jöreskog & Sörbom, 1996; Marsh & Hocevar, 1985). Second, the root mean square error approximation (RMSEA) should be less than 0.10 (MacCallum, Browne, & Sugawara, 1996). Third, the standardized root mean residual (SRMR) should be less than or close to 0.08 (Hu & Bentler, 1999). Last, the comparative fit index (CFI) should meet or exceed 0.90 (Bentler, 1995). The CFA result showed that all four measures met the criteria ( $\chi^2/df=3.63$ , RMSEA=0.09, SRMR=0.06, CFI=0.94), demonstrating the model fit was acceptable. Following previous research (Aryee et al., 2012; Seibert, Silver, & Randolph, 2004; Spreitzer, 1996), the scores from the four dimensions were averaged to form a composite measure of psychological empowerment. The scale’s alpha reliability was 0.88.

### *Knowledge sharing*

Eight items developed by Liu, Leung, and Koch (2006) were used to measure knowledge sharing. Respondents indicated how frequently they had engaged in knowledge sharing on a 7-point Likert scale, with 1= “never” and 7= “very frequently”. Two sample items are: “I share with others useful work experience and know-how,” and “in the workplace I take out my knowledge to share with more people.” The alpha coefficient of this scale was 0.86.

### *Control Variables*

Based on prior research, this study controlled for firm size, firm age, and industry characteristics at the organizational level in the analysis. The measures of these variables were the same with Study 2. Firm size was included because larger firms have greater resources and may be more able to utilize knowledge resources to innovate (Collins & Smith, 2006). Firm age was controlled because both empowerment practices and employee perceived empowerment practices in MNE subsidiaries may have been influenced by the local institutional environment over time (Björkman, Fey, & Park, 2007). The possible effect of industry characteristics was also controlled since these have been shown to relate to both empowerment practices and knowledge transfer (Collins & Smith, 2006; Datta, Guthrie, & Wright, 2005).

At the individual level, this study controlled for employee gender, employee age, and company tenure since these characteristics have typically been controlled in knowledge sharing and psychological empowerment research (Foss et al., 2009; Liao et al., 2009). Gender was dummy-coded as 1, male, and 0, female. Company tenure was measured as the number of years employees worked for the company.

**Table 4.1. Sample Characteristics**

<b>Sample Characteristics-Firms</b>		
<b>Variable</b>	<b>Category</b>	<b>Percent</b>
Firm size	Employees<100	17.5%
	Employees 101-500	40%
	Employees>500	42.5%
Industry	Manufacturing	50%
	Electronics	25%
	Services	15%
	Information technology	5%
	Others	5%
Firm age	5-10	27.5%
	11-15	42.5%
	16-20	25%
	21-25	5%
<b>Sample Characteristics-Employees</b>		
<b>Variable</b>	<b>Category</b>	<b>Percent</b>
Gender	Male	77%
	Female	23%
Age	20-30	33.5%
	31-40	47.2%
	41-50	19.3%
Tenure	0-5	62.8%
	6-10	34.2%
	11-15	3%

*Note:* N=40 firms and N=331 employees.

#### **4.3.3 Data analysis**

The conceptual model of this study is multilevel in nature, consisting of variables both at the organizational level (i.e. empowerment practices) and individual level (i.e. employee perceived empowerment practices, psychological empowerment, and knowledge sharing). Hierarchical

linear modelling (HLM) analysis (Raudenbush & Bryk, 2002) was used to test the hypothesized cross-level direct and moderating effects. This study tested all cross-level direct hypotheses using intercepts-as-outcomes while controlling for firm size, firm age, and industry characteristics at the organizational level (i.e. Level 2), and employees' gender, age and company at the individual level (i.e. Level 1). The descriptive statistics and correlations for the study variables are presented in Table 4.2.

#### **4.4 Results**

Before testing the hypotheses, this study examined the degree of between-firm variance in psychological empowerment and knowledge sharing. An ANOVA using a two-level null HLM analysis was conducted. The result showed that 24.9% of the variance in psychological empowerment and 49.6% of variance in knowledge sharing resided between firms, respectively. The chi-square tests revealed that the between-firm variances were significant.

Hypothesis 1 predicted that empowerment practices would positively influence knowledge sharing behaviour. This study used the intercepts-as-outcome HLM model to test the hypothesis, controlling for employee gender, age, and tenure as Level 1 predictors and firm size, firm age, and industry characteristics as Level 2 predictors. Tables 4.3 showed that empowerment practices were significantly related to knowledge sharing (Model 1:  $\gamma = 0.28$ ,  $p < 0.05$ ). Therefore, hypothesis 1 was supported. To provide an estimate of the percentage of variance in knowledge sharing accounted for by empowerment practices, this study computed pseudo- $R^2$  (Bliese, 2002) for knowledge sharing. The result suggested that empowerment practices explained 20.2% of the between-firm variance in knowledge sharing.



**Table 4.2. Means, standard deviations, and correlations**

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. IT	.08	.27															
2. Service	.18	.39	.17**														
3. Electronics	.22	.42	-.16**	-.26**													
4. Manufacturing	.50	.50	-.10	-.48**	-.54**												
5. Other industries	.05	.21	-.07	-.10	-.12*	-.22**											
6. Firm age	14.02	4.51	.26**	.00	.19**	-.20**	-.15**										
7. Firm size	6.24	1.70	-.10	.10	.46**	-.39**	-.24**	.35**									
8. Gender	.77	.42	-.02	.03	-.09	-.07	.00	.01	.04								
9. Age	34.02	6.61	-.00	-.04	.07	-.07	.001	.08	.06	-.09							
10. Tenure	4.83	2.77	.01	.11*	-.00	-.04	-.081	-.08	.00	-.10	-.04						
11. EP	5.10	.80	.05	.10	.10	-.05	-.02	.02	-.05	.22**	-.07	.02					
12. EPEP	4.26	1.23	-.11*	.10	-.08	.08	.01	-.01	-.17**	.21**	-.06	-.05	.49**				
13. PE	5.06	.86	.08	.13*	.18**	-.20**	-.10	.11	.07	.26**	-.04	-.08	.38**	.37**			
14. KS	5.39	.92	-.07	.02	-.15**	.15**	-.09	.09	-.07	.06	-.06	-.09	.30**	.52**	.22**		

*Note:* N=331. (1) Industries were recoded to four dummy variables: Dumindu1: IT; Dumindu2: Service; Dumindu3: Electronics; Dumindu4: Manufacturing. Other industries was omitted and served as the base case. For each dummy variable, 0 represents No (or Not from this industry) and 1 represents Yes (or Yes the company is from this industry). Empowerment practices, industry characteristics, firm age, and firm size are assigned to individual level. (2) EP: empowerment practices; (3) EPEP: employee perceived empowerment practices; (4) PE: psychological empowerment; (5) KS: knowledge sharing.

\*p<0.05; \*\*p<0.01. Two tailed.

This study followed the four-step procedures for establishing mediation described in Kenny, Kashy, and Bolger (1998) to test hypothesis 2 and 4. As Kenny et al. (1998) suggested, four preconditions must be met to support a mediation hypothesis: (1) independent variable significantly influences the dependent variable; (2) independent variable significantly influences the mediator; (3) the mediator significantly influences the dependent variable after controlling for the independent variable; and (4) the strength of the effect of the independent variable on the dependent variable is reduced (i.e. partial mediation) or disappears (i.e. full mediation).

Hypotheses 2 proposed that employee perceived empowerment practices mediated the positive relationship between empowerment practices and psychological empowerment. Intercepts-as-outcome HLM model was conducted to test the hypothesis, controlling for employee gender, age, and tenure as Level 1 predictors and firm size, firm age, and industry characteristics as Level 2 predictors. As shown in in Table 4.3, empowerment practices had a significant positive relationship with employee perceived empowerment practices (Model 2:  $\gamma = 0.87, p < 0.001$ ) and psychological empowerment (Model 3:  $\gamma = 0.39, p < 0.001$ ). To test the mediation effect, all controls were included, employee perceived empowerment practices as the Level 1 predictor, and empowerment practices as the Level 2 predictor as specified in Model 3. As shown in Table 4.3, employee perceived empowerment practices were significantly related to psychological empowerment (Model 4:  $\gamma = 0.31, p < 0.001$ ). The positive relationship between empowerment practices and psychological empowerment remained. However, its magnitude was reduced (Model 4:  $\gamma = 0.35, p < 0.001$ , compared to Model 3:  $\gamma = 0.39, p < 0.001$ ). These results indicated that employee perceived empowerment practices partially mediated the relationship between empowerment practices and psychological empowerment, supporting Hypothesis 2.

**Table 4.3. Hierarchical linear modelling results**

Variables	KS (Model 1)	EPEP (Model 2)	PE (Model 3)	PE (Model 4)	KS (Model 5)	KS (Model 6)
Level 1						
Intercept	2.68**	0.19	2.77***	2.82***	2.78**	5.79***
Employee gender	0.15	0.01	−0.18	−0.22*	0.14	0.14
Employee age	−0.00	0.00	−0.00	−0.00	−0.00	0.00
Tenure	−0.02	−0.01	−0.04*	−0.02	−0.02	−0.01
EPEP				0.31***	0.21**	0.15*
PE						0.14*
PD						
PD×EP						
Level 2						
IT	0.48	−0.46	0.65	0.64	0.37	−0.34
Service	0.48	0.11	0.49	0.61	0.42	0.35
Electronics	−0.12	−0.03	0.54	0.63	−0.18	0.44
Manufacturing	−0.48	−0.12	0.19	0.34	0.40	−0.21
Firm age	0.05*	0.01	0.03	0.01	0.05	0.04
Firm size	−0.01	−0.09	−0.02	−0.03	−0.00	0.02
EP	0.28*	0.87***	0.39***	0.35***	0.28*	0.31*

*Note:* N=331 individuals (level 1) and N=40 firms (level 2). Unstandardized estimates are reported. EP: empowerment practices; EPEP: employee perceived empowerment practices; PE: psychological empowerment; KS: knowledge sharing.

\* $p < .05$ ; \*\* $p < .01$ ; \*\*\* $p < .001$ . Two tailed

For the percentage of variance in psychological empowerment accounted for by empowerment practices and employee perceived empowerment practices, the pseudo- $R^2$  for psychological empowerment was computed. The results suggested that empowerment practices explained 56.5% of the between-firm variance in psychological empowerment, and that employee perceived empowerment practices explained 13.2% of the within-firm variance in psychological empowerment.

Hypothesis 3 predicted that psychological empowerment would mediate the relationship between employee perceived empowerment practices and knowledge sharing. This study followed the same procedures above in testing Hypothesis 2. Specifically, to meet the first precondition that employee perceived empowerment practices needed to be positively related to knowledge sharing, employee gender, age, and tenure were included as Level 1 controls and firm size, firm age, industry characteristics, and empowerment practices were chosen as Level 2 controls. The results in Table 4.3 showed that employee perceived empowerment practices were positively related to knowledge sharing (Model 5:  $\gamma = 0.21$ ,  $p < 0.01$ ). The second precondition that employee perceived empowerment practices needed to be related to psychological empowerment was met when testing Hypothesis 2. To meet the third and fourth requirements, all controls were included, employee perceived empowerment practices and psychological empowerment as Level 1 predictors as specified in Model 6. As indicated in Table 4.3, psychological empowerment was significantly related to knowledge sharing (Model 6:  $\gamma = 0.14$ ,  $p < 0.05$ ). The positive relationship between employee perceived empowerment practices and knowledge sharing was still significant but was reduced in magnitude (Model 6:  $\gamma = 0.15$ ,  $p < 0.05$ , compared to Model 5:  $\gamma = 0.21$ ,  $p < 0.01$ ). Thus, Hypothesis 4 was supported. To obtain information regarding the percentage of variance in knowledge sharing accounted for by employee perceived empowerment practices and psychological empowerment, the pseudo- $R^2$  for knowledge sharing was computed. The results indicated that 11.2% and 8.7% of the within-firm variance in knowledge sharing were accounted for by employee perceived empowerment practices and psychological empowerment, respectively.

## **4.5 Discussion and Conclusion**

This study investigated the micro-level mechanisms of organizational level empowerment practices and the knowledge transfer process. The findings indicated that empowerment practices influence knowledge sharing through employee perceived empowerment practices and psychological empowerment, largely supporting the hypotheses. The implications of these findings are discussed below.

### **4.5.1 Theoretical implications**

First, the overall contribution of this study is that through integrating KBV and psychological empowerment literature, it extends previous research of individual mechanisms of the HRM-knowledge link by highlighting the role of cognitive motivation, i.e. psychological empowerment, in facilitating knowledge sharing. The emphasis on psychological empowerment offers an alternative to previous literature which is mainly concerned with individual intrinsic motivation of the HRM-knowledge link (Foss et al., 2009). Since psychological empowerment emphasizes the meaningfulness and value goals of work to energize employees, employees are more likely to share knowledge for achieving organizational goals (Osterloh & Frey, 2000). Empowerment practices play an important strategizing role to leverage employees' knowledge resources through psychological empowerment processes. In addition, methodologically, unlike prior empirical research on the HRM-knowledge link that only used individual-level data (Minbaeva et al., 2012), this study collected data from both organizational and individual levels to test a multi-level model. In doing so, Study 3 answered the call for more multi-level modelling in research on the micro-foundation of knowledge based competitive advantages (Felin et al., 2015).

Second, this study found that organizational level empowerment practices had a positive effect on individual knowledge sharing. Although empowerment practices are considered as critical for organizational level knowledge transfer (Kang et al., 2007) and employee's perception of these practices has been shown to be related to individual-level knowledge

sharing (Foss et al., 2009), there is a lack of empirical research directly linking organizational-level empowerment practices with individual-level knowledge sharing. Recognition that organizations do not share knowledge per se but rather the knowledge sharing behaviour of individuals enables organizations to achieve organizational-level knowledge heterogeneity (Foss, 2011), has shifted research attention to the implications of empowerment practices on individual knowledge sharing (Minbaeva et al., 2009). This finding provides empirical evidence for a cross-level effect of empowerment practices on knowledge processes and corroborates previous research on the relationship between HRM practices and knowledge sharing (Minbaeva et al., 2012).

Third, employee perceived empowerment practices have been found to mediate the relationship between empowerment practices and psychological empowerment. This study clarifies and integrates the dispersed literature on empowerment and empirically tests a coherent model of empowerment (Maynard et al., 2012; Robbins et al., 2002), confirming that empowerment is a multi-level phenomenon that needs to take both organizational and individual processes into consideration (Robbins et al., 2002; Seibert et al., 2004). The result is consistent with Seibert et al. (2004) who found a positive relationship between empowerment practices and psychological empowerment. The result also further supports the association between employees' perceptions of empowerment practices and psychological empowerment (Liden et al., 2000). Moreover, this research validates the view that for HRM practices to affect employees' attitudes and behaviours, employees must perceive the presence of these practices (Wright & Boswell, 2002). Employee perceived empowerment practices serve as a cross-level mediating mechanism that transmits the effect of organizational level empowerment practices to psychological empowerment. Although there have been mixed findings regarding the relationship between the HRM system and employees' perceptions of the system, this study indicates empowerment practices, a core element of the HRM systems, are positively associated with employees' perceived empowerment practices, suggesting the value of considering

individual HRM practices separately instead of a bundle of these practices (Wood, Burridge, Rudloff, Green, & Nolte, 2015).

Forth, psychological empowerment mediates the relationship between employee perceived empowerment practices and knowledge sharing. This finding contributes to the individual level research on psychological empowerment and knowledge sharing behaviour. Previous research on the outcomes of psychological empowerment focused on employees' creativity, performance, and satisfaction. Notably missing from research attention is knowledge sharing behaviour, despite the fact that psychological empowerment has been shown to be related to other voluntary behaviours such as OCB (Maynard et al., 2012). Likewise, although knowledge sharing literature has viewed motivation as an important antecedent of knowledge sharing, there is a lack of research on the role of traditional cognitive motivation theory and construct such as psychological empowerment in facilitating knowledge sharing. This study extends these two streams of research by explicating the connection between psychological empowerment and knowledge sharing.

#### **4.5.2 Managerial implications**

Our findings have several practical implications for managers. First, this study highlights psychological empowerment as a key individual-mechanism contributing to organizational knowledge processes in a goal-oriented way. Since psychological empowerment is, in essence, internal to the individual, it is difficult to manage it directly (Seibert et al., 2011). More importantly, as psychological empowerment emphasizes the energizing and meaningful organizational goals, strong individualized incentives tend to undermine the effect of psychological empowerment (Lindenberg & Foss, 2011). The findings of this study suggest that employee empowerment practices can be useful to mobilize psychological empowerment. Organizations may seek to improve employees' psychological empowerment in order to motivate strategic knowledge sharing behaviour.

Secondly, managers need to be aware that implemented empowerment practices must be perceived by employees in order to achieve knowledge-based competitive advantage. This is because employee perceived empowerment practices translate organizational empowerment practices into employees' individual frameworks which promote the desired motivation and strategic behaviours. Therefore, managers should improve communications with employees and ensure that well-intended empowerment practices are correctly understood by employees. The dialogue and trust between employees and management are necessary to reduce the discrepancy between management's and employees' perceptions of empowerment practices.

Overall, this study suggests that knowledge sharing is a complex behaviour that should take into account both organizational and individual psychological factors. It is only by appropriately managing these factors that organizations can level their knowledge resources for competitive advantage.

#### **4.5.3 Limitations and future research**

This study has a number of limitations. First, the cross-sectional design of this study precludes any inference of causality. Future research using a longitudinal design would benefit from addressing the directionality of causality in the present study. Relatedly, as data were obtained from self-reporting surveys, common-method variance may have confounded the results. However, Harman's one factor test for the individual-level data indicated that common method variance is not substantial, which increased our confidence in the results. Future research could address this concern by collecting multi-source data. Second, data were only drawn from MNE subsidiaries operating in China, which may limit the generalizability of the findings. Since empowerment practices and psychological empowerment may be sensitive to firm-specific characteristics such as organizational culture, future research could replicate and extend the findings using data from multiple types of firms and cultural contexts. Third, since this study examined issues of employees' positive work experience (e.g. psychological empowerment, knowledge sharing), non-random choice may influence the findings (i.e. HR managers may



choose employees that have a positive relationship with the managers). Although this study asked the HR managers to randomly select employees during the data collection process, potential non-random participation may have inflated the relationship in our study. Finally, with respect to the micro-macro link in Figure 4.2, while it is proposed that individual-level knowledge sharing aggregately contributes to organizational knowledge transfer, future research should explore how individual actions and interactions are translated into organizational level outcomes. Such aggregation may take place in a context where each individual's actions influence other individuals and at the same time are influenced by others, in a positive or negative way (Minbaeva et al., 2012). The emergence is not a simple aggregation of individual-level actions and characteristics. Instead, it should consider "the underlying actors, social mechanisms, forms of aggregation and interactions that lead to emergent outcomes" (Felin et al., 2015, p. 606). Exploring the micro-macro link requires great effort from both micro and macro disciplines in management (Felin et al., 2015). This study, like previous research, also has this limitation.

## References

- Abell, P., Felin, T., & Foss, N. (2008). Building micro-foundations for the routines, capabilities, and performance links. *Managerial and Decision Economics*, 29(6), 489-502.
- Andreeva, T., & Sergeeva, A. (2016). The more the better... or is it? The contradictory effects of HR practices on knowledge-sharing motivation and behaviour. *Human Resource Management Journal*, 26(2), 151-171.
- Argote, L., & Ingram, P. (2000). Knowledge transfer: A basis for competitive advantage in firms. *Organizational behavior and human decision processes*, 82(1), 150-169.
- Aryee, S., Walumbwa, F. O., Seidu, E. Y., & Otaye, L. E. (2012). Impact of high-performance work systems on individual-and branch-level performance: Test of a multilevel model of intermediate linkages. *Journal of Applied Psychology*, 97(2), 287.
- Ashkanasy, N. M., Wilderom, C. P., & Peterson, M. F. (2000). *Handbook of organizational culture and climate*. Thousand Oaks, CA: Sage.
- Bae, J., & Lawler, J. J. (2000). Organizational and HRM strategies in Korea: Impact on firm performance in an emerging economy. *Academy of Management Journal*, 43(3), 502-517.
- Bandura, A. (1977). Self-efficacy: toward a unifying theory of behavioural change. *Psychological Review*, 84(2), 191-215.
- Bandura, A. (1982). Self-efficacy mechanism in human agency. *American Psychologist*, 37(2), 122-147.
- Bandura, A. (1997). *Self-efficacy: The exercise of control*. New York, NY: Freeman.
- Batt, R. (2001). The economics of teams among technicians. *British Journal of Industrial Relations*, 39(1), 1-24.
- Batt, R., & Colvin, A. J. (2011). An employment systems approach to turnover: Human resources practices, quits, dismissals, and performance. *Academy of Management Journal*, 54(4), 695-717.

- Bentler, P. M. (1995). *EQS structural equations program manual*. Encino, CA: Multivariate Software.
- Björkman, I., Fey, C. F., & Park, H. J. (2007). Institutional theory and MNC subsidiary HRM practices: Evidence from a three-country study. *Journal of International Business Studies*, 38(3), 430-446.
- Bliese, P. D. (2002). Using multilevel random coefficient modeling in organizational research. In F. Drasgow & N. Schmitt (Eds.), *Measuring and analyzing behavior in organizations: Advances in measurement and data analysis* (pp. 401–455). San Francisco, CA: Jossey-Bass.
- Bowen, D. E., & Ostroff, C. (2004). Understanding HRM–firm performance linkages: The role of the “strength” of the HRM system. *Academy of Management Review*, 29(2), 203-221.
- Brewster, C., Suutari, V., & Minbaeva, D. B. (2005). HRM practices and MNC knowledge transfer. *Personnel Review*, 34(1), 125-144.
- Burke, W. 1986. Leadership as empowering others. In S. Srivastva (Eds.), *Executive Power* (pp. 51-71). San Francisco: Jossey-Bass
- Cabrera, A., & Cabrera, E. F. (2002). Knowledge-sharing dilemmas. *Organization Studies*, 23(5), 687-710.
- Cabrera, A., Collins, W. C., & Salgado, J. F. (2006). Determinants of individual engagement in knowledge sharing. *The International Journal of Human Resource Management*, 17(2), 245-264.
- Choi, J. N. (2007). Change-oriented organizational citizenship behavior: Effects of work environment characteristics and intervening psychological processes. *Journal of Organizational Behavior*, 28(4), 467-484.
- Coleman, J. S. (1986). Social theory, social research, and a theory of action. *American journal of Sociology*, 91(6), 1309-1335.
- Coleman, J. S. (1990). *Foundations of social theory*. Cambridge, MA: Belknap Press of Harvard University Press.

- Collins, C. J., & Smith, K. G. (2006). Knowledge exchange and combination: The role of human resource practices in the performance of high-technology firms. *Academy of Management Journal*, 49(3), 544-560.
- Conger, J. A., & Kanungo, R. N. (1988). The empowerment process: Integrating theory and practice. *Academy of Management Review*, 13(3), 471-482.
- Cummings, J. N. (2004). Work groups, structural diversity, and knowledge sharing in a global organization. *Management Science*, 50(3), 352-364.
- Datta, D. K., Guthrie, J. P., & Wright, P. M. (2005). Human resource management and labor productivity: Does industry matter? *Academy of Management Journal*, 48(1), 135-145.
- Davenport, T. H., De Long, D. W., & Beers, M. C. (1998). Successful knowledge management projects. *Sloan Management Review*, 39(2), 43-57.
- Deci, E. L., & Ryan, R. M. (2000). The "what" and "why" of goal pursuits: Human needs and the self-determination of behavior. *Psychological Inquiry*, 11(4), 227-268.
- Dorfman, P. W., & Howell, J. P. (1988). Dimensions of national culture and effective leadership patterns: Hofstede revisited. *Advances in international comparative management*, 3(1), 127-150.
- Doz, Y. L., Santos, J., & Williamson, P. J. (2001). *From global to metanational: How companies win in the knowledge economy*. Boston, MA: Harvard Business School Press.
- Farh, J. L., Hackett, R. D., & Liang, J. (2007). Individual-level cultural values as moderators of perceived organizational support–employee outcome relationships in China: Comparing the effects of power distance and traditionality. *Academy of Management Journal*, 50(3), 715-729.
- Felin, T., Foss, N. J., & Ployhart, R. E. (2015). The microfoundations movement in strategy and organization theory. *The Academy of Management Annals*, 9(1), 575-632.
- Felin, T., & Hesterly, W. S. (2007). The knowledge-based view, nested heterogeneity, and new value creation: Philosophical considerations on the locus of knowledge. *Academy of Management Review*, 32(1), 195-218.

- Felin, T., Zenger, T. R., & Tomsik, J. (2009). The knowledge economy: Emerging organizational forms, missing microfoundations, and key considerations for managing human capital. *Human Resource Management*, 48(4), 555-570.
- Foss, N. J. (2007). The emerging knowledge governance approach: Challenges and characteristics. *Organization*, 14(1), 29-52.
- Foss, N. J. (2011). Invited editorial: Why micro-foundations for resource-based theory are needed and what they may look like. *Journal of Management*, 37(5), 1413-1428.
- Foss, N. J., Minbaeva, D. B., Pedersen, T., & Reinholt, M. (2009). Encouraging knowledge sharing among employees: How job design matters. *Human Resource Management*, 48(6), 871-893.
- Frey, B. S. (1993). Motivation as a limit to pricing. *Journal of Economic Psychology*, 14(4), 635-664.
- Gagné, M. (2009). A model of knowledge-sharing motivation. *Human Resource Management*, 48(4), 571.
- Gamble, J. (2006). Introducing Western-style HRM practices to China: Shopfloor perceptions in a British multinational. *Journal of World Business*, 41(4), 328-343.
- Gilson, L. L., & Shalley, C. E. (2004). A little creativity goes a long way: An examination of teams' engagement in creative processes. *Journal of Management*, 30(4), 453-470.
- Gist, M. E. (1987). Self-efficacy: Implications for organizational behavior and human resource management. *Academy of management review*, 12(3), 472-485.
- Gooderham, P., Minbaeva, D. B., & Pedersen, T. (2011). Governance mechanisms for the promotion of social capital for knowledge transfer in multinational corporations. *Journal of Management Studies*, 48(1), 123-150.
- Grant, R. M. (1996). Toward a knowledge-based theory of the firm. *Strategic Management Journal*, 17(S2), 109-122.

- Hu, L. t., & Bentler, P. M. (1999). Cutoff criteria for fit indexes in covariance structure analysis: Conventional criteria versus new alternatives. *Structural Equation Modeling: A Multidisciplinary Journal*, 6(1), 1-55.
- Huang, Q., & Gamble, J. (2011). Informal institutional constraints and their impact on HRM and employee satisfaction: Evidence from China's retail sector. *The International Journal of Human Resource Management*, 22(15), 3168-3186.
- Jansen, J. J., Van Den Bosch, F. A., & Volberda, H. W. (2005). Managing potential and realized absorptive capacity: How do organizational antecedents matter? *Academy of Management Journal*, 48(6), 999-1015.
- Jiang, Y., Colakoglu, S., Lepak, D. P., Blasi, J. R., & Kruse, D. L. (2015). Involvement work systems and operational effectiveness: Exploring the moderating effect of national power distance. *Journal of International Business Studies*, 46(3), 332-354.
- Jöreskog, K. G., & Sörbom, D. (1996). *LISREL 8: user's reference guide*. Chicago, IL: Scientific Software International.
- Kang, S.-C., Morris, S. S., & Snell, S. A. (2007). Relational archetypes, organizational learning, and value creation: Extending the human resource architecture. *Academy of Management Review*, 32(1), 236-256.
- Kehoe, R. R., & Wright, P. M. (2013). The impact of high-performance human resource practices on employees' attitudes and behaviors. *Journal of Management*, 39(2), 366-391.
- Kenny, D. A., Kashy, D. A., & Bolger, N. (1998). Data analysis in social psychology. In D. Gilbert, S. T. Fiske, & G. Lindzey (Eds.), *Handbook of social psychology* (4th ed., Vol. 1, pp. 233–265). New York, NY: McGraw-Hill.
- Kogut, B., & Zander, U. (1993). Knowledge of the firm and the evolutionary theory of the multinational corporation. *Journal of International Business Studies*, 24(4), 625-645.

- Lawler, E. E., Mohrman, S. A., & Ledford, G. E. (1995). *Employee involvement and total quality management: Practices and results in Fortune 1000 companies*. San Francisco, CA: Jossey-Bass.
- Lawler, E. E. (1973). *Motivation in work organizations*. Monterey, CA: Brooks/Cole.
- Lepak, D. P., & Snell, S. A. (1999). The human resource architecture: Toward a theory of human capital allocation and development. *Academy of Management Review*, 24(1), 31-48.
- Lepak, D. P., & Snell, S. A. (2002). Examining the human resource architecture: The relationships among human capital, employment, and human resource configurations. *Journal of Management*, 28(4), 517-543.
- Liao, H., Toya, K., Lepak, D. P., & Hong, Y. (2009). Do they see eye to eye? Management and employee perspectives of high-performance work systems and influence processes on service quality. *Journal of Applied Psychology*, 94(2), 371-391.
- Liden, R. C., Wayne, S. J., & Sparrowe, R. T. (2000). An examination of the mediating role of psychological empowerment on the relations between the job, interpersonal relationships, and work outcomes. *Journal of Applied Psychology*, 85(3), 407-416.
- Lindenberg, S., & Foss, N. J. (2011). Managing joint production motivation: The role of goal framing and governance mechanisms. *Academy of Management Review*, 36(3), 500-525.
- Lu, L., Leung, K., & Koch, P. T. (2006). Managerial knowledge sharing: The role of individual, interpersonal, and organizational factors. *Management and Organization Review*, 2(1), 15-41.
- MacCallum, R. C., Browne, M. W., & Sugawara, H. M. (1996). Power analysis and determination of sample size for covariance structure modeling. *Psychological Methods*, 1(2), 130-149.
- Marsh, H. W., & Hocevar, D. (1985). Application of confirmatory factor analysis to the study of self-concept: First-and higher order factor models and their invariance across groups. *Psychological Bulletin*, 97(3), 562-582.

- Maynard, M. T., Gilson, L. L., & Mathieu, J. E. (2012). Empowerment—fad or fab? A multilevel review of the past two decades of research. *Journal of Management*, 38(4), 1231-1281.
- Minbaeva, D. B. (2013). Strategic HRM in building micro-foundations of organizational knowledge-based performance. *Human Resource Management Review*, 23(4), 378-390.
- Minbaeva, D. B., Foss, N., & Snell, S. (2009). Bringing the knowledge perspective into HRM. *Human Resource Management*, 48(4), 477-483.
- Minbaeva, D. B., Mäkelä, K., & Rabbiosi, L. (2012). Linking HRM and knowledge transfer via individual-level mechanisms. *Human Resource Management*, 51(3), 387-405.
- Minbaeva, D. B., Pedersen, T., Björkman, I., Fey, C. F., & Park, H. J. (2003). MNC knowledge transfer, subsidiary absorptive capacity, and HRM. *Journal of International Business Studies*, 34(6), 586-599.
- Nonaka, I. (1994). A dynamic theory of organizational knowledge creation. *Organization Science*, 5(1), 14-37.
- Osterloh, M., & Frey, B. S. (2000). Motivation, knowledge transfer, and organizational forms. *Organization Science*, 11(5), 538-550.
- Parker, S. K. (1998). Enhancing role breadth self-efficacy: The roles of job enrichment and other organizational interventions. *Journal of Applied Psychology*, 83(6), 835-852.
- Podsakoff, P. M., MacKenzie, S. B., Lee, J.Y. & Podsakoff, N. P. (2003). Common Method Biases in Behavioral Research: A Critical Review of the Literature and Recommended Remedies. *Journal of Applied Psychology*, 88(5), 879-903.
- Raudenbush, S. W., & Bryk, A. S. (2002). Hierarchical linear models: Applications and data analysis methods (2nd ed.). Thousand Oaks, CA: Sage.
- Robbins, T. L., Crino, M. D., & Fredendall, L. D. (2002). An integrative model of the empowerment process. *Human Resource Management Review*, 12(3), 419-443.
- Salancik, G. R., & Pfeffer, J. (1978). A social information processing approach to job attitudes and task design. *Administrative Science Quarterly*, 23(2), 224-253.



- Schneider, B. (1990). The climate for service: An application of the climate construct. In B. Schneider (Ed.), *Organizational climate and culture* (pp. 383–412). San Francisco, CA: Jossey-Bass.
- Seibert, S. E., Silver, S. R., & Randolph, W. A. (2004). Taking empowerment to the next level: A multiple-level model of empowerment, performance, and satisfaction. *Academy of Management Journal*, 47(3), 332-349.
- Spender, J. C. (1996). Making knowledge the basis of a dynamic theory of the firm. *Strategic Management Journal*, 17(S2), 45-62.
- Spreitzer, G. M. (1995). Psychological empowerment in the workplace: Dimensions, measurement, and validation. *Academy of Management Journal*, 38(5), 1442-1465.
- Spreitzer, G. M. (1996). Social structural characteristics of psychological empowerment. *Academy of Management Journal*, 39(2), 483-504.
- Thomas, K. W., & Velthouse, B. A. (1990). Cognitive elements of empowerment: An “interpretive” model of intrinsic task motivation. *Academy of Management Review*, 15(4), 666-681.
- Tsui, A. S., Pearce, J. L., Porter, L. W., & Tripoli, A. M. (1997). Alternative approaches to the employee-organization relationship: Does investment in employees pay off ? *Academy of Management Journal*, 40(5), 1089-1121.
- Wang, S., & Noe, R. A. (2010). Knowledge sharing: A review and directions for future research. *Human Resource Management Review*, 20(2), 115-131.
- Wood, S. J., Burridge, M., Rudloff, D., Green, W., & Nolte, S. (2015). Dimensions and location of high-involvement management: fresh evidence from the UK Commission's 2011 Employer Skills Survey. *Human Resource Management Journal*, 25(2), 166-183.
- Wright, P. M., & Boswell, W. R. (2002). Desegregating HRM: A review and synthesis of micro and macro human resource management research. *Journal of Management*, 28(3), 247-276.

- Wright, P. M., Dunford, B. B., & Snell, S. A. (2001). Human resources and the resource based view of the firm. *Journal of Management*, 27(6), 701-721.
- Zhang, X., & Bartol, K. M. (2010). Linking empowering leadership and employee creativity: The influence of psychological empowerment, intrinsic motivation, and creative process engagement. *Academy of Management Journal*, 53(1), 107-128.
- Zhang, Y., & Begley, T. M. (2011). Power distance and its moderating impact on empowerment and team participation. *The International Journal of Human Resource Management*, 22(17), 3601-3617.

## **Chapter 5 (Study 4)**

### **What determines the adoption of employee empowerment practices by MNE subsidiaries in China? An institutional perspective**

A slightly different version of this chapter will be submitted to *International Journal of  
Manpower*

## **Abstract**

Employee empowerment practices have been increasingly used by multinational enterprises (MNEs) to leverage human resources for organizational competitive advantage. However, despite the pressure of adopting empowerment practices for high performance, MNEs are also under pressure to adopt HR practices to conform to the host country institutional environment. This study develops and tests a conceptual model of how MNE's internal and external forces of institutional isomorphism affect the degree of employee empowerment practices adopted by MNE subsidiaries. Results from a survey of 99 MNE subsidiaries operating in China show that both the informal institutions of the host country and the subsidiary's characteristics play an important role in shaping the degree of empowerment practices adopted by MNE subsidiaries.

**Keywords:** employee empowerment practices, cultural distance, subsidiary roles, the extent of MNE's global integration, foreign directors, subsidiary's trust in the parent company

## 5.1 Introduction

With the rapid expanse of multinational enterprises (MNEs) and increasingly competitive economic conditions, effective employee management in foreign subsidiaries has been viewed as vital for MNEs' competitiveness (Björkman, Fey, & Park, 2007; Rosenzweig & Singh, 1991). For decades, human resource management (HRM) scholars have argued that HRM practices contribute to sustained competitive advantage by developing human assets that are valuable, rare, non-substituted, and difficult to imitate (Barney, 1991; Becker & Huselid, 2006). A large body of empirical literature has documented that high performance work systems (HPWS), consisting of a bundle of coherent HRM practices, enhance organizational performance outcomes such as productivity and financial performance (Bae & J. Lawler, 2000; Birdi et al., 2008; Huselid, 1995; Sun, Aryee, & Law, 2007). Employee empowerment practices, which transfer considerable decision-making rights to employees, have been typically regarded as a key component of HPWS (Huselid, 1995; Kaufman, 2015; Wall, Wood, & Leach, 2004). In light of the theoretical and empirical findings of a positive relationship between HPWS, including empowerment practices, and organizational performance, HPWS have become the dominant global HR system (J. Lawler, Chen, Wu, Bae, & Bai, 2011). This leads to the convergence in HRM practices in different parts of the world, as indicated in the convergence approach in international HRM research (Tregaskis & Brewster, 2006). Furthermore, the support and advocacy from the business community such as certification programs and consulting firms has also led to the view that HPWS are standard HRM practices for MNEs (Björkman et al., 2007). It has been observed that MNEs that extensively implement these HRM practices are more likely to achieve high performance and serve as an important conduit for the global diffusion of HPWS (Chen, Lawler, & Bae, 2005; Yalabik, Chen, Lawler, & Kim, 2008). Accordingly, empowerment practices, a core element of HPWS, are targeted for potential cross-border transfers by MNEs (Jiang, Colakoglu, Lepak, Blasi, & Kruse, 2015; J. Lawler et al., 2011).

However, despite the pressure to adopt the appropriate HRM practices associated with high performance, MNEs also need to adopt practices to conform to the local institutional environment (Rosenzweig & Singh, 1991). Although a large body of research has studied the HRM practices adopted in MNE subsidiaries through an institutional lens (Björkman & Welch, 2015; Pudelko & Harzing, 2007; Welch, 1994), these studies have tended to focus on the adoption of HRM practices as a whole (i.e. HPWS). However, scholars have argued that different HRM practices may face distinct institutional pressures in various degrees (Rosenzweig & Nohria, 1994) and using an aggregate measure of HRM practices may obscure the actual level of empowerment practices adopted by firms as well as factors influencing the degree to which these practices are implemented (Wood, Burrige, Rudloff, Green, & Nolte, 2015). There is still a lack of knowledge of the extent to which employee empowerment practices are adopted in MNE foreign subsidiaries. Moreover, little effort has been made to examine what factors facilitate or constrain subsidiaries' use of empowerment practices. Understanding these issues is important as it provides insights for MNEs to implement appropriate empowerment practices in foreign subsidiaries.

To address this gap in the current literature, this study draws on institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977) to offer a refined theorization of the determinants of the degree of employee empowerment practices in MNE foreign subsidiaries. As MNE foreign subsidiaries are subject to pressures to be externally aligned with the local institutional environment and maintain internal consistency with the parent company (Bartlett & Ghosbal, 1987), this study investigates the impact of several external and internal institutional factors on the implementation of empowerment practices in these subsidiaries, including cultural distance, the extent of MNE's global integration, subsidiary roles, the presence of foreign directors, and the subsidiary's trust in the parent company.

To control the potential influences of legal, economic, and social influences across different host countries, this study chooses MNE subsidiaries operating in China as the empirical setting. Additionally, as China has become the largest foreign direct investment (FDI) recipient in the

developing world (Cai, Lu, Wu, & Yu, 2016), there is an abundance of MNE subsidiaries operating in China. Furthermore, as justified in the Chapter 1, choosing MNE subsidiaries in China allows this thesis to examine a wide range of factors shaping the empowerment practices in organizations.

The remainder of the paper is structured in the following manner. This study first reviews the theoretical background and develops hypotheses regarding how institutional factors influence the degree of empowerment practices adopted by MNE subsidiaries operating in China. Next, this study describes the research methods and the result of the empirical study. Finally, this study discusses the theoretical and practical implications of the findings and concludes the paper with identified limitations and future research suggestions.

## **5.2 Theory and Hypotheses**

### **5.2.1 Institutional theory and HRM practices in MNEs**

The institutional theory holds that organizations are under considerable pressure to conform to the prevailing rules and norms in the institutional environment (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Snell & Youndt, 1995). In order to gain legitimacy and recognition, organizations adopt structures and practices regarded as appropriate in their particular environment (Scott, 1995; Warner, 2008). Organizations may adopt practices to respond to coercion imposed by a powerful constituency (i.e. coercive mechanism), to respond to professional organization's standard (i.e. normative mechanism), and to respond to uncertainty by mimicking other successful organizations (i.e. mimetic mechanism). These institutions can also be divided into formal institutions including economic, political, and social organizations and informal institutions such as cultural norms and rules (North, 1994; Scott, 1995). In the context of MNEs, subsidiaries located in foreign countries are under dual pressures to respond to the external local institutional environment and internal parent company's pressures (Rosenzweig & Singh, 1991).

Prior research has used institutional theory to examine how the home and host country's institutional forces as well as subsidiaries' characteristics affect HRM practices in foreign subsidiaries (Bjorkman, Fey, & Park, 2007; J. Lawler et al., 2011, Ngo, Foley, Loi, & Zhang, 2011). Bjorkman et al. (2007) found that the status of the subsidiary's human resource management department and knowledge transfer with other parts of the MNE are positively related to subsidiary HRM activities such as training, performance appraisal, and internal communication. J. Lawler et al. (2011) and Ngo et al. (2011) adopted a system approach to HRM and demonstrated that the MNE's subsidiaries' characteristics and the local institutional environment influence the extent of adoption of HPWS. Although this research provides valuable insights into how HRM practices are shaped by institutional forces, they tend to either ignore empowerment practices or regard it as an element of HPWS. As each specific element of the HRM system may be constrained by different institutional forces in various degrees (Rosenzweig & Nohria, 1994), combining multiple HRM practices into one measure of HPWS causes unnecessary reliability problems (Bjorkman et al., 2007). Thus, there is still lack of understanding of specific institutional factors that influence empowerment practices in MNE foreign subsidiaries.

Much of the previous research has emphasised the effect of formal institutions on MNE foreign subsidiaries' management practices, such as legislation and ownership (Meyer and Peng, 2005). However, insufficient attention has been paid to informal institutions that may facilitate or constrain management practices in these subsidiaries (Huang & Gamble, 2011). As empowerment practices are generally assumed to be more appropriate and effective in a more egalitarian Western culture (Bae, Chen, David Wan, J. Lawler, & Walumbwa, 2003), cultural distance may be particularly relevant for the implementation of empowerment practices in foreign subsidiaries. Therefore, this study examines whether cultural distance influences empowerment practices in foreign subsidiaries in China's hierarchical culture.

Moreover, international management scholars have suggested that research on MNEs should go beyond the standard institutional framework characterised by institutional



determinism to include proactive agency roles such as the MNE subsidiary's roles and characteristics (Kostova, Roth, & Dacin, 2008; Oliver, 1991). Therefore, in the following sections, in addition to cultural distance, this study encompasses a number of MNE subsidiary characteristics that may influence the adoption of empowerment practices such as the extent of MNE's global integration, subsidiary roles, the presence of foreign directors, and the subsidiary's trust in the parent company.

### **5.2.2 Manager's perceived cultural distance**

Cultural distance is defined as the extent to which the shared norms and values in one country differ from those in another (Hofstede, 1980, 2001; Kogut & Singh, 1988). Previous research has suggested that cultural distance can be measured by Kogut and Singh's (1988) index, Hofstede's (1980) dimension of national culture, and manager's perceived cultural distance and all these measures have power to predict MNEs' strategic behaviour (Drogendijk & Slangen, 2006). Kostova et al. (2008) have posited that research on MNEs should take into account the "strong agency" perspective instead of just institutional determinism. As subsidiary managers' perceptions and interpretation directly drive their strategic decisions and behaviours (Drogendijk & Slangen, 2006; Shenkar, 2001), their perceptions of cultural distance may be more proximal than an objective measure of cultural distance in influencing empowerment practices in foreign subsidiaries. Therefore, this study adopts the measure of manager's perceived cultural distance.

Culture distance implies the degree of uncertainty involved in transferring the home country's practices to foreign affiliates (DiMaggio & Powell, 1983; Scott, 1995). As global standard HRM practices, empowerment practices have been extensively used by MNE headquarters and are subject to being transferred to their subsidiaries (Björkman et al., 2007; Jiang et al., 2015). If there is a small culture distance between the parent company and the subsidiary, a shared understanding of the value of empowerment practices exists (Rosenzweig & Singh, 1991). Empowerment practices are more likely to be accepted or preferred by local employees as they reduce the cost of socialising employees to foster positive attitudes towards

empowerment practices (Huang & Gamble, 2011). Empowerment practices tend to be viewed as legitimate in these host countries (DiMaggio & Powell, 1983). Therefore, a small cultural distance creates favourable institutional conditions that enable the subsidiary to adopt a higher degree of empowerment practices.

On the other hand, when there is a large cultural distance between the home country and China, the manager may believe that employees in such a hierarchical culture are submissive to authority and have no interest in exerting the autonomy and initiative required by empowerment practices (Aykan et al., 2000). The potential value of empowerment practices will not be understood and accepted by local employees. It takes great costs to adapt and train employees to learn how to make the decisions created by empowerment practices. This negative judgement will decrease the manager's motivation to implement a high degree of empowerment practices. Kostova (2002) found that the favourability of the host country's institutional profile, including cognitive institutions, is positively related to the transfer of quality management practices from the parent company to subsidiaries. Randolph (2002) suggested that a large cultural distance impedes the implementation of empowerment practices. On the basis of theoretical arguments and previous empirical findings, it is expected that:

*Hypothesis 1:* Managers' perceived culture distance is negatively related to the degree of empowerment practices adopted by MNE subsidiaries in China.

### **5.2.3 Subsidiary characteristics: The extent of MNE's global integration**

One of the central questions in international management literature is how to balance the requirements of global integration (or standardization) and local responsiveness (or localization) (Bartlett & Ghosbal, 1987; Porter, 1986; Rosenzweig & Singh, 1991). The benefits of global integration include scale and scope economics while the advantage of local responsiveness entails managing different kinds of risks arising from national differences and learning from the social differences (Ghoshal, 1987). MNEs are subjected to these conflicting dual pressures to simultaneously integrate global business and respond to local environments. The extent of

MNE's global integration or local responsiveness determines how the firm's resources are configured and allocated within MNEs (Ghoshal & Bartlett, 1988) as well as shaping the subsidiary's interactions with headquarters and their exposure to international institutional forces (Björkman et al., 2007). As empowerment practices are viewed as a strategic tool for improving MNE's competitiveness (Jackson, Schuler, & Jiang, 2014), the extent of MNE's global integration provides a basis for the way in which empowerment practices are implemented within foreign subsidiaries (Taylor, Beechler, & Napier, 1996).

A higher extent of global integration indicates that the parent company and subsidiaries need a higher degree of cooperation among different operational units, resulting in higher levels of internal consistency between subsidiaries and the parent company (Bartlett & Ghosbal, 1987). This consistency creates cohesive internal institutional forces for the subsidiaries to align their finances, marketing, and other functions, including HRM practices with the parent company's functions in order to realize strategic goals (Birkinshaw, Bresman, & Nobel, 2010). Under these circumstances, there is a lower degree of mandate to conform to local institutions. Since empowerment practices are highly valued by the MNEs, a higher extent of global integration will lead to a higher degree of empowerment practices adopted by subsidiaries. Conversely, a lower extent of global integration indicates that the parent company exercises less control over the subsidiaries and the subsidiaries are highly sensitive to local institutional environment (Porter, 1986). In this case, subsidiaries face low imperatives for consistency with headquarters' HRM practices and high institutional pressures to follow the local practices (Ghoshal & Bartlett, 1988). As the degree of empowerment practices in Chinese firms is relatively low due to the hierarchical culture (Su & Wright, 2012), it is expected that MNEs with a lower extent of global integration tend to adopt a lower degree of empowerment practices (Rosenzweig & Nohria, 1994). Previous empirical evidence suggests that the higher the extent of MNE's global integration, the higher the similarity of HRM practices between subsidiaries and the parent company (Kim & Gray, 2005). Accordingly, it is proposed that:

*Hypothesis 2:* The extent of MNE's global integration is positively related to the degree of empowerment practices adopted by MNE subsidiaries in China.

#### **5.2.4 Subsidiary characteristics: Subsidiary roles**

Whether MNE subsidiaries will adopt certain HR practices is not only subject to their external pressure (Rosenzweig & Nohria, 1994), but also dependent on the roles of subsidiaries (Hannon & Jaw, 1995). International management researchers have paid increasing attention to subsidiary initiatives (Birkinshaw et al., 2010; Birkinshaw, Hood, & Jonsson, 1998) and subsidiary roles (Qin, Wang, & Ramburuth, 2017) in shaping their behaviour overseas. Birkinshaw et al. (1998) posited that subsidiary's initiatives can enhance local responsiveness, worldwide learning and global integration. However, it may reduce the parent company's control along with the subsidiary's increasing resource base (Doz & Prahalad, 1981). Qin et al. (2017) argued that through knowledge transfer with other units within MNEs, a subsidiary not only increases the MNE's performance in the global market but also enhances the subsidiary's performance. Different subsidiary roles engage in different extents of knowledge inflow and outflow with other units of MNEs, leading to various degrees of exposure to internal/local institutional forces (Ghoshal & Bartlett, 1988; Schuler, Dowling, & De Cieri, 1993).

Based on headquarter-subsidiary relationship literature (Gupta & Govindarajan, 1991), this research further explores how different subsidiary roles influence the degree of empowerment practices adopted. According to subsidiary's involvement in resource inflows and outflows with headquarters and other subsidiaries, four generic subsidiary roles are generated: Global Innovator, Integrated Player, Implementer, and Local Innovator (Gupta & Govindarajan, 1991) (See Figure 5.1). Different subsidiary roles indicate different degrees of dependence of the subsidiary on the rest of the MNE for providing major resources such as technical and managerial know-how. The tendency of a foreign subsidiary to resemble the parent company reflects its dependence on resources from parent company (Rosenzweig & Singh, 1991).

		Knowledge inflow	
		High	Low
Knowledge outflow	High	<b>Integrated Player</b> <b>(Highest)</b>	<b>Global Innovator</b> <b>(Low)</b>
	Low	<b>Local Implementer</b> <b>(Medium)</b>	<b>Local Innovator</b> <b>(Lowest)</b>

**Figure 5.1. Subsidiary roles**

The Integrated Player is characterized by high resource inflows to a focal subsidiary from the parent company and high resource outflows to the parent company. Due to its higher resource dependence on the parent company, it is an imperative for the subsidiary to fully integrate with the parent company and other subsidiaries. Such an imperative creates high coercive, normative and mimetic pressures for the subsidiary to adopt the parent company's management practices and low pressures to resemble local companies (Björkman et al., 2007). The Integrated Player is fully exposed to international institutional forces regarding the advanced HRM practices. Therefore, the highest degree of empowerment practices is expected to be adopted by the Integrated Player. Compared with the Integrated Player, the Local Implementer, with high inflows from the parent company, is also likely to comply with the parent company. However, the low outflows to other parts of the MNE may constrain its global strategic role and the extent of exposure to international institutional forces (Gupta & Govindarajan, 1994). The pressure for the Local Implementer to resemble the parent company tends to be moderate. As such, a medium degree of empowerment practices is likely to be adopted by the Local Implementer. Both the Global Innovator and the Local Innovator receive a low degree of resource inflows from the parent company (Gupta & Govindarajan, 1991). As they are less dependent on the parent company and more responsive to the host country

environment characterised by a hierarchical culture, it is expected that they will adopt a low degree of empowerment practices. However, given that the Global Innovator performs a knowledge-creation role for the rest of the MNE, the MNE may exert a certain degree of control to integrate the Global Innovator with the rest of MNEs (Taylor et al., 1996). Besides, as the Local Innovator engages little resource flows with the rest of the MNE, it is more independent from the parent company and more embedded in the local institutional environment than the Global Innovator. As such, the Local innovator is the least exposed to international institutional forces regarding what constitutes standard HRM practices (e.g. empowerment practices). Hence, the degree of empowerment practices adopted by the Global Innovator is likely to be slightly higher than for the Local Innovator. Based on the above argument, the following hypothesis is developed:

*Hypothesis 3:* Integrated players tend to adopt the highest degree of empowerment practices among the four types of subsidiary roles; medium for the Local Implementer, low for the Global Innovator, and the lowest for the Local Innovator.

#### **5.2.5 Subsidiary characteristics: The presence of foreign directors**

The role of the subsidiary affects empowerment practice implementation through knowledge flows between the parent company and the subsidiary (Gupta & Govindarajan, 1994). An alternative way that influences knowledge flows between the parent company and the subsidiary is the use of expatriates (Barry Hocking, Brown, & Harzing, 2004; Harzing, 2001). Previous literature has identified the use of expatriates as a means of transferring the parent company' HRM systems to subsidiaries (J. Lawler et al., 2011; Rosenzweig & Nohria, 1994).

Professional training and the transmission of professional standards are viewed as important means to diffuse organizational practices and structures (Björkman et al., 2007; DiMaggio & Powell, 1983). As the professional HR training and education around world advocates empowerment practices as “best practices”, foreign directors who tend to receive

extensive executive training may obtain great knowledge about the effectiveness of empowerment practices (Björkman et al., 2007; J. Lawler et al., 2011; Pfeffer, 1994). In addition, foreign directors tend to be cosmopolitans with extensive international experience and global perspectives (Björkman & Welch, 2015). Accordingly, they are more likely to be exposed to the international forces of what are regarded as “best practices” for high performance. They may serve as conduits of the parent company’s culture and practices (Edström & Galbraith, 1977). As a result, foreign directors may be interested and willing to adopt a higher degree of empowerment practices. Expatriate networks have been shown to play a key role to diffuse HRM practices that may differ from conventional local practices (Bjorkman & Lu, 2001). Beechler and Bird (1994) found that the transfer of a Japanese management style to foreign affiliates was influenced by the presence of the home-country expatriates. Taken together, it is proposed that:

*Hypothesis 4:* The presence of foreign directors is positively related to the degree of empowerment practices adopted by MNE subsidiaries in China.

#### **5.2.6 Subsidiary characteristics: The subsidiary’s trust in the parent company**

While subsidiaries face internal pressures to adopt practices handed down from the parent company, the relational context between the subsidiary and the parent company affects how the subsidiary perceives and interprets such pressures (Kostova & Roth, 2002). The subsidiary’s trust in the parent company has been identified as a key relational factor for cooperation between the subsidiary and the parent company (Kostova & Roth, 2002). Previous research has suggested that trust can increase the subsidiary’s communication with the parent company, facilitating knowledge transfer between the two parties (Tsai & Ghoshal, 1998).

Based on Bromiley and Cummings’ (1995) conceptualization of interorganizational trust, Kostva and Roth (2002) developed the definition of the subsidiary’s in the parent company as “a common belief within the subsidiary that the parent: (1) makes good-faith efforts to behave

in accordance with commitments, both explicit and implicit, (2) is honest in whatever discussions preceded such commitments, and (3) does not take excessive advantage of the subsidiary, even when the opportunity is available” (Kostova & Roth, 2002, p. 219). Past research has shown that trust can reduce the costs of negotiation and communication, facilitating transfer of knowledge and goods between exchange parties (Williamson, 1985; Zaheer, McEvily, & Perrone, 1998).

MNEs have been regarded as major vehicles to diffuse global standard HR systems including empowerment practices (Björkman et al., 2007). However, when empowerment practices are transferred from a parent company to a subsidiary in China, there will be a great degree of uncertainty and ambiguity surrounding the efficacy and applicability of empowerment practices (Kostova & Roth, 2002). For example, although the MNE may advocate the benefits of empowerment practices for productivity, the subsidiary, based on a hierarchical culture, may interpret these practices as interference with normal operations (Su & Wright, 2012). The inconsistency of expectations between the parent company and the subsidiary may deepen the uncertainty about the value of empowerment practices. In this circumstance, trust of the subsidiary in the parent company plays a critical role in facilitating the adoption of a higher degree of empowerment practices (Kostova et al., 2008). When the subsidiary trusts the parent company, it is likely to increase the subsidiary’s belief that empowerment practices are indeed beneficial for the company. This, in turn, will reduce the perceived uncertainty and ambiguity of empowerment practices in the subsidiary. Moreover, if subsidiaries trust the parent company, they tend to actively learn what are viewed as “best management practices” from the parent company through a mimetic isomorphism (DiMaggio & Powell, 1983; Scott, 1995). Previous research provides empirical support for the positive association between the degree of trust of subsidiaries in the parent company and organizational practices transfer (Kostova & Roth, 2002; Szulanski, 1996). Therefore, it is expected that:

*Hypothesis 5:* The degree the subsidiary’s trust in the parent company is positively related to the degree of empowerment practices adopted by MNE subsidiaries in China.



## 5.3 Method

### 5.3.1 Sample and Data

As with Study 2, this study collected data from 99 MNE subsidiaries operating in China. This sample was ideal for the following reasons. First, as detailed in Study 1, there is an abundance of MNEs subsidiaries operating in China. Furthermore, China is one of the fastest growing economies in the world and is also characterised by a traditional hierarchical culture which may constrain the effectiveness of Western-style empowerment practices (Su & Wright, 2012). This competitive and complex environment provides enough variation on the independent variables of interest.

The procedures for data collection and questionnaire translation were also consistent with Study 2 (see Chapter 3 for details). The major characteristics of the sample were summarised in Table 5.1.

Harman's single-factor test was utilized to check the potential common method bias (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). All the variables were loaded into an exploratory factor analysis to test whether one single factor accounted for a majority of the covariance between the measures. The un-rotated factor solution suggested that one factor explained 30% of the variance, indicating that the common method variance was not substantial.

### 5.3.2 Measures

#### *Employee empowerment practices*

Following Study 2<sup>2</sup>, Study 4 employed the same measure for employee empowerment practices.

#### *Manager's perceived cultural distance*

Manager's perceived cultural distance was measured by four items adapted from Drogendijk and Slangen (2006). Sample items included: "how large did you perceive the cultural

---

<sup>2</sup> Refer to pp. 95-96

**Table 5.1 Sample characteristics**

<b>Variable</b>	<b>Category</b>	<b>Percent</b>
Size	Employees>500	49%
	Employees 101-500	35%
	Employees<100	16%
Industry	Manufacturing	46%
	Electronics	26%
	Services	12%
	Information technology	9%
	Others	7%
Location	Suzhou	65%
	Shanghai	15%
	Guangzhou	9%
	Shenzhen	3%
	Others	8%
Region of origin	U.S. origin	38%
	EU and UK origin	33%
	Asian origin	29%

*Note:* N=99.

differences in norms and values between China and the MNE's home country" and "how large did you perceive the cultural differences in habits and customs between China and the MNE's home country". This scale was assessed on a seven-point scale, ranging from 1 = "very small" to 7 = "very large". The alpha coefficient of this scale was 0.90.

#### *The extent of MNE's global integration*

Based on the literature of the integration-responsiveness framework (e.g. Birkinshaw & Morrison, 1995; Prahalad & Doz, 1987; Roth and Morrison, 1990), two items were used to measure the extent of MNE's global integration. the respondents were asked: "to what extent are the products and services of the subsidiary in China similar to those of the parent company and other subsidiaries" and "to what extent does the parent company permit products and services' localization by the subsidiary in China" (reverse-coded). Responses were obtained on

a seven-point scale, ranging from 1 = “very low” to 7 = “very high”. The alpha coefficient of this scale was 0.74.

#### *Presence of foreign directors*

Presence of foreign directors was measured by a dichotomous variable, i.e. yes versus no.

#### *Subsidiary roles*

As shown in Figure 5.1, Gupta and Govindarajan’s (1991) typology of MNE subsidiaries, based on knowledge inflows and outflows, was used in this study to measure subsidiary roles. Following Harzing and Noorderhaven (2006), knowledge inflows and outflows were measured in four areas: (1) product design, (2) marketing, (3) distribution, (4) management systems and practices. The respondent was asked to rate the degree to which the subsidiary engaged in the transfer of knowledge and skills in the areas above on a seven-point scale ranging from 1= “very low” to 7= “very high” in the following four directions: (1) receives knowledge and skills from the parent company, (2) receives knowledge and skills from other subsidiaries, (3) provides knowledge and skills to the parent company, (4) provides knowledge and skills to other subsidiaries. Following Gupta and Govindarajan (1994), responses for the two types of knowledge inflow (from the parent company and from other subsidiaries) were combined as a composite measure of knowledge inflow. Similarly, a composite measure of knowledge outflow was constructed. Then, median splits among these two composite measures (i.e. knowledge inflow and outflow) was used to create a typology of four subsidiary roles: Global Innovator, Integrated Player, Local Implementer, and Local Innovator.

#### *The subsidiary’s trust in the parent company*

An eight-item scale of the subsidiary’s trust in the parent company developed by Kostova and Roth (2002) was adopted in this paper. Responses were obtained on a seven-point scale, ranging from 1 = “strongly disagree” to 7 = “strongly agree”. Sample items include “we trust the parent company” and “we feel the parent company does not mislead us”. The scale’s alpha reliability was 0.94.

### *Control variables*

Following previous research, we controlled the subsidiary size, subsidiary age, industry characteristics, the percentage of union workers, region of origin, the entry mode of subsidiaries, and the location of subsidiaries in China to offset their possible effects on the degree of adoption of empowerment practices in MNE subsidiaries (Bjorkman et al., 2007). The measures of subsidiary size, subsidiary age, industry characteristics, and the percentage of union workers were the same with Study 2. The region of origin was indicated by the location of the MNE's parent company and three categories were obtained, United States, UK and European Union, and Asia. The entry mode of subsidiaries, in terms of wholly owned subsidiaries versus joint ventures, and the location of subsidiaries in China were eliminated since empowerment practices in MNE subsidiaries tended to be affected by local partners and sub-national level institutions (Sheldon & Sanders, 2016).

## **5.4 Results**

Descriptive data and correlations between variables are provided in Table 5.2. The correlation coefficients were all less than 0.80, indicating that there was little risk of multicollinearity (Bryman & Cramer, 1997). Hierarchical regression analysis was performed to test the effect of perceived cultural distance, the extent of MNE's global integration, presence of foreign directors, and the subsidiary's trust in the parent company on the degree of adoption of empowerment practices. To ensure parametric regressions form a suitable approach for this study, the normality, homogeneity of variance, and linearity of the data were examined and no major violations were found. As shown in Table 5.3, in Model 1, all control variables were included, which showed limited explanatory power. In Model 2, four independent variables were added to assess their respective effects. The adjusted R-square increased from 0.12 to 0.46 ( $F = 5.62, p < 0.001$ ), indicating Model 2 was a substantial improvement over Model 1.

**Table 5.2. Descriptive statistics and correlations**

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1. Subsidiary size	6.41	1.58	1																		
2. Subsidiary age	16.09	7.71	.23*	1																	
3. PUW	.46	.46	.14	.11	1																
4. IT	.09	.29	-.00	.10	-.08	1															
5. Service	.13	.34	.01	.05	-.09	-.12	1														
6. Electronics	.25	.44	.33**	.06	.06	-.18	-.23*	1													
7. Manufacturing	.46	.50	-.27**	-.17	.04	-.30**	-.36**	-.54**	1												
8. DumIRO1	.28	.45	-.17	.05	.04	-.04	-.05	-.06	.13	1											
9. DumIRO2	.33	.47	.02	-.22*	.01	.00	.04	.08	-.01	-.44**	1										
10. DumISL1	.15	.36	-.04	.13	-.13	.06	.09	-.18	.12	.05	-.12	1									
11. DumISL2	.65	.48	.10	-.23*	.04	-.13	-.09	.28**	-.03	-.01	.21*	-.57**	1								
12. DumISL3	.03	.17	-.05	.05	-.18	.15	.11	.03	-.17	.15	-.13	-.08	-.24*	1							
13. DumISL4	.09	.29	-.13	.16	.27**	.02	-.02	-.18	-.01	.04	-.08	-.13	-.43**	-.06	1						
14. Entry mode	.85	.36	-.08	-.13	-.13	-.06	-.01	-.08	.11	.09	.00	.10	-.14	.08	.04	1					
15. PCD	4.25	1.20	-.25*	.08	-.17	.02	-.06	-.03	.03	.02	.16	.10	-.14	.24*	.02	.23*	1				
16. Global integration	4.59	1.42	.06	.23*	-.21*	.09	-.10	.02	-.06	-.17	.07	.02	-.08	.18	-.06	.12	.12	1			
17. PFD	.84	.37	.14	-.12	.08	-.15	.01	.13	-.03	.03	.19	.03	.08	.08	-.15	-.11	.01	-.09	1		
18. Trust	5.37	1.11	-.13	.05	.02	.08	-.07	-.14	.06	-.09	-.05	-.04	-.01	-.05	-.04	.13	.07	.19	-.03	1	
19. EP	4.95	.91	.03	.03	-.12	.12	-.20*	-.05	.02	-.30**	.10	.02	.05	-.12	-.11	.10	.21*	.53*	-.10	.46*	1

*Note:* N=99. (1) Industries were recoded to five dummy variables: Dumindu1: IT; Dumindu2: Service; Dumindu3: Electronics; Dumindu4: Manufacturing. Dumiothers: Other industries. Dumiothers was omitted and served as the base case. For each dummy variable, 0 represents No (or Not from this industry) and 1 represents Yes (or Yes the company is from this industry). (2) PUW: percentage of union workers; (3) Subsidiaries' region of origin was recoded to three dummy variables: DumIRO1: EU and UK; DumIRO2: Asia; DumIRO3: U.S. DumIRO3 was omitted and served as the base case. (4) Subsidiaries' locations were recoded to five dummy variables: DumISL1: Shanghai; DumISL2: Suzhou; DumISL3: Shenzhen; DumISL4: Guangzhou; DumISL5: Other locations. DumISL5 was omitted and served as the base case. (5) PCD: perceived culture distance; (6) PFD: Presence of foreign directors. (8) Trust: the subsidiary's trust in the parent company

\*p<0.05, \*\*p<0.01. Two tailed.

**Table 5.3. Institutional factors as determinants of empowerment practices**

Variables	Model 1	Model 2
(Constant)	5.70	2.23
Subsidiary size	-.05	.02
Subsidiary age	.03	-.01
Percentage of union workers	-.14	.014
IT	-.47	-.18
Service	-1.34**	-.66
Electronics	-.95*	-.47
Manufacturing	-.80	-.41
DumiRO1	-.60*	-.37*
DumiRO2	.03	-.10
DumiSL1	.08	.21
DumiSL2	.17	.23
DumiSL3	-.38	-.82
DumiSL4	-.53	-.16
Entry mode	.36	-.03
Perceived cultural distance		.15*
The extent of MNE's global integration		.29***
Presence of foreign directors		-.13
Trust		.26***
Adjusted R-Square	0.12*	.46***
Change in R-Square		.31***

*Note:* N=99. (1) Industries were recoded to five dummy variables: Dumindu1: IT; Dumindu2: Service; Dumindu3: Electronics; Dumindu4: Manufacturing. Dumiothers: Other industries. Dumiothers was omitted and served as the base case. For each dummy variable, 0 represents No (or Not from this industry) and 1 represents Yes (or Yes the company is from this industry). (2) Subsidiaries' region of origin was recoded to three dummy variables: DumiRO1: EU and UK; DumiRO2: Asia; DumiRO3: U.S. DumiRO3 was omitted and served as the base case. (3) Subsidiaries' locations were recoded to five dummy variables: DumiSL1: Shanghai; DumiSL2: Suzhou; DumiSL3: Shenzhen; DumiSL4: Guangzhou; DumiSL5: Other locations. DumiSL5 was omitted and served as the base case. (4) Trust: Trust of subsidiaries in the parent company

\* $p < 0.05$ ; \*\* $p < 0.01$ ; \*\*\* $p < 0.001$ . Two tailed.

Hypothesis 1 posited that the manager's perceived culture distance has a negative effect on the degree of adoption of empowerment practices. The result showed that the relationship was statistically significant at  $p < 0.01$  (two-tailed t-test),  $sr^2=0.03$ . However, the direction of the relationship was contrary to initial expectation. The manager's perceived culture distance was positively related to the degree of adoption of empowerment practices. Thus, Hypothesis 1 was not supported.

Hypothesis 2 predicted a positive relationship between the extent of MNE's global integration and the degree of adoption of empowerment practices. The result showed a positive relationship at a significant level of  $p < 0.001$ ,  $sr^2=0.15$  offering strong support for this hypothesis.

Hypothesis 3 proposed that different subsidiary roles are associated with different degrees of adoption of empowerment practices: the highest degree of adoption for Integrated Players, medium for Local Implementers, low for Global innovators and the lowest for Local Innovators. A one way between-groups ANOVA was conducted to inspect if there was any difference between the four subsidiary roles. Preliminary assumption testing was conducted to check the normality, linearity, multivariate outliers, with no serious violations noted. A significant effect was found for different subsidiary roles,  $F(3, 95) = 8.30$ ,  $p < 0.05$ . The effect size, calculated using eta squared, was 0.21, suggesting a large effect. Post-hoc pairwise comparisons indicated that Integrated Players ( $M = 5.55$ ,  $SD = 0.80$ ) implemented the highest degree empowerment practices among the four subsidiary types. Local Implementers ( $M = 5.06$ ,  $SD = 0.72$ ) implemented significantly higher degree of empowerment practices than Local Innovators ( $M = 4.54$ ,  $SD = 0.95$ ) and Global Innovators ( $M = 4.54$ ,  $SD = 0.69$ ). However, there was no significant difference between Local Innovators and Global Innovators and both had the lowest adoption of empowerment practices, which did not support the hypothesised relationship. Therefore, only partial support was found for Hypothesis 3.

Hypothesis 4 posited that the presence of foreign directors positively influences the degree of adoption of empowerment practices. The result did not show a statistically significant relationship for this hypothesis ( $\beta = -.13$ , n. s.). Thus, Hypothesis 4 was not supported.

Hypothesis 5 predicted a positive relationship between the subsidiary's trust in the parent company and the degree of adoption of empowerment practices. This hypothesis received strong support in our analysis. The subsidiary's trust in the parent company was positively significantly related to the degree of adoption of empowerment practices at  $p < 0.001$ ,  $sr^2=0.08$ .

## **5.5 Discussion and Conclusion**

This study explored contextual factors that determine the degree of adoption of employee empowerment practices in MNE foreign subsidiaries through the lens of institutional theory. Based on a sample of 99 MNE subsidiaries in China, the current study found that both the informal institution (i.e. cultural distance) and the subsidiary's characteristics influenced the degree of empowerment practices adopted in these subsidiaries. On the whole, the conceptual model was, at least, partially supported.

First, contrary to expectations, managers' perceived culture distance was found to be positively related to the degree of empowerment practices. This result seems surprising since institutional theory suggests that a large cultural distance increases the uncertainty of the value of empowerment practices (Kostova & Roth, 2002). A possible explanation for this might be that cultural distance was measured at the national level. As China is a very large and complex country composed of a large number of sub-national regions (i.e. provinces), there are diverse institutional profiles within the country (Chan, Makino, & Isobe, 2010). Provinces take on distinct identities within their own cultures (Tse, 2010). In this study, sample firms were all located in Yangtze River Deltas and Pearl River Deltas, the two most open and developed economic areas in China (Sun et al., 2007). It is reasonable to infer that the perceived cultural distance between these areas and the subsidiary's home country may not be as large as that between less developed western provinces and the subsidiary's home country. Even when



managers perceive a large culture distance between countries, they may gain subtle knowledge of the regions' culture which may in turn foster empowerment practices (Sheldon & Sanders, 2016).

This contradictory result may also be attributed to the dependence of the host country on the MNE of which the subsidiary is a part (Rosenzweig & Singh, 1991). If the subsidiary makes an important contribution to the host country's economy, the host country may become more dependent on the subsidiary. In this circumstance, the subsidiary will be under less pressure for local isomorphism (Hannon & Jaw, 1995). Instead, the subsidiary may gain high prestige or status in the local environment which enables it to depart from the traditional standard (Sherer & Lee, 2002). Even though there is large cultural distance, it may have the legitimacy to experiment with HRM innovations such as a high degree of empowerment practices. Furthermore, the subsidiary may view the large cultural distance as an opportunity to leverage their home-based strategic organizational practices to gain a competitive advantage. In this case, the subsidiary is more likely to use its legitimacy to implement a higher degree of empowerment practices.

Another possible explanation is that this research measured cultural distance in terms of individual managers' perceptions. Although previous research suggested that all cultural distance measures, including secondary data sources and managerial perceptions, predict MNE's strategic decisions and practices, the explanatory power of the perception measure is relatively lower (Drogendijk & Slangen, 2006). Thus, it is beneficial to use secondary data sources to measure cultural distance and compare its effect on empowerment practices with the findings of this study.

Second, there was support for the hypothesis that the extent of MNEs' global integration had a positive effect on the degree of empowerment practices adopted by subsidiaries. As the extent of MNE's global integration increases, the need for coordination and integration of global operations between parent companies and subsidiaries is heightened. This creates coercive, normative and mimetic institutional pressures for subsidiaries to adopt a higher degree

of empowerment practices. By contrast, a low extent of MNEs' global integration may grant subsidiaries more autonomy to respond to local institutional constraints, leading to a lower degree of empowerment practices (Rosenzweig & Singh, 1991; Roth, Schweiger, & Morrison, 1991). This finding corroborates the idea of Rosenzweig and Singh (1991), who posit that the extent of MNE's global integration is negatively related to subsidiaries' resemblance to local HRM practices. Rather than focusing on the degree of similarity of HRM systems between MNE subsidiaries and local firms in previous research (Kim & Gray, 2005; Rosenzweig & Nohria, 1994), this study examines a key element of HRM systems-empowerment practices.

Third, there was a significant difference in the degree of adoption of empowerment practices among the four subsidiary roles. Consistent with expectations, Integrated Players adopt the highest degree of empowerment practices and Local Implementers adopt a medium degree of empowerment practices. Interactions and knowledge transfer between parent companies and those two types of subsidiaries lead to the spread of empowerment practices. However, no significant difference was found between Global Innovators and Local Innovators. This result can be interpreted as stemming from the strong autonomous role of Global Innovators (Birkinshaw & Hood, 1997). Although Global Innovators are more exposed to international institutional forces than Local Innovators, they also have a high level of autonomy. The international institutional forces promoting subsidiaries to adopt a higher degree of empowerment practices may be mitigated by the simultaneous increase in the power of the subsidiary (Gupta & Govindarajan, 1994). Accordingly, they may adopt HRM practices that are viewed appropriate in a local institutional environment. As a result, both Global Innovators and Local Innovators tend to adopt the lowest degree of empowerment practices. The results of the Integrated Player and the Local Implementer confirm the association between these two types of subsidiary roles and the degree of similarity between subsidiaries' HRM systems with the parent companies' systems (Kim & Gray, 2005; Ngo et al., 2011). However, the finding regarding the Global Innovator is contrary to previous studies which have suggested that the Global Innovator' HRM systems have higher degrees of similarity with that of the parent

companies (Kim & Gray, 2005). This may be because previous studies focused on HRM systems as a whole, thus ignoring the specific relationships between Global Innovators and empowerment practices per se (Wood et al., 2015).

Forth, the presence of foreign directors is not statistically related to the degree of empowerment practices adopted by subsidiaries. It is argued that expatriate managers tend to bring parent policies and practices to subsidiaries (Selmer & Lee, 1995). However, the insignificant result appears to be in line with the assertion that it is the competence of expatriates not the presence or the number of expatriates that will lead to effective transfer of management practices and knowledge from parent companies to subsidiaries (Chang, Gong, & Peng, 2012). As expatriates may be selected on the basis of their technical skills, they may not have the HR competence to foster empowerment practices in subsidiaries (Chang et al., 2012). Moreover, recent research posits that managers with value and beliefs that human resources are vital for competitive advantage tend to adopt high involvement management practices including empowerment practices (Arthur, Herdman, & Yang, 2014). Therefore, future research could go beyond the presence of foreign directors to examine foreign directors' HR competence and values as determinants of the degree of empowerment practices transferred to subsidiaries. This finding is consistent with previous studies indicating that the presence of foreign directors is not related to the adoption of HPWS (J. Lawler et al., 2011).

Lastly, a strong support was found for the positive relationship between the subsidiary's trust of the parent company and the degree of empowerment practices adopted by the subsidiary. This finding bolsters Kostova et al.'s (2002) study suggesting the subsidiary's trust in the parent company is positively related to the transfer of quality management practices. According to institutional theory, the subsidiary's trust in parent company reduce the ambiguity of the efficiency of the practices (Kostova et al., 2008). As such, it facilitates the implementation of empowerment practices through the normative and mimetic isomorphism processes (DiMaggio & Powell, 1983). The role of the subsidiary's trust in the parent company is prominent in China

as empowerment practices are generally regarded as incompatible with China's institutional environment (Su & Wright, 2012; Su, Wright, & Ulrich, 2017).

### **5.5.1 Theoretical and practical implications**

The findings of the present study have contributed to the international HRM literature in general and the research on empowerment practices in MNEs in particular. First, an increasing amount of research has looked into factors that influence the adoption of global best practices among MNEs (Björkman et al., 2007; J. Lawler et al., 2011; Rosenzweig & Nohria, 1994). To extend this stream of research, this study identified and tested internal and external institutional factors that may facilitate or constrain empowerment practices in MNE foreign subsidiaries. Although previous research examines how institutional factors influence HRM systems as a whole in foreign subsidiaries, it stops short of considering the specific factors that account for empowerment practices in these subsidiaries (Ngo et al., 2011). As this study shows, while some of the antecedents of empowerment practices are similar to HRM systems, others take on the distinctive characteristics. In particular, despite previous research emphasising that culture distance may impede the adoption of culture-sensitive HRM practices (Randolph & Sashkin, 2002), this study finds that the perceived cultural distance of managers is positively related to the degree of empowerment practices. By investigating a series of specific institutional factors, this study addresses the recent call for more research on contextual factors as determinants of empowerment practices (Wood et al., 2015).

Second, this study highlights the subsidiary's proactive agency role in the process of the institutionalisation of empowerment practices (Kostova & Roth, 2002). Specifically, the extent of the MNE's global integration, subsidiary roles, and the subsidiary's trust in the parent company are important for enhancing the implementation of empowerment practices. The average degree of empowerment practices adopted by MNE subsidiaries in China is 4.95 out of seven, a relatively high level. To a large extent, this may reflect the MNEs' high prestige in China and their status allows them to try HRM innovations, i.e. a high degree of empowerment

practices (Sherer & Lee, 2002). The result suggests that the effect of strong agency is clearly visible and determined efforts by the parent company may enable the subsidiary to depart from organizational practices that have been traditionally used in local institutional environment (Björkman et al., 2007).

From a practitioner perspective, empowerment practices have been viewed as an important strategic tool to leverage human resources to achieve competitive advantage in the West (E. Lawler, 1995). Given the increasingly fierce competition globally, effective management of local employees has become a great challenge for MNEs (Gamble, 2006). The previous literature suggests that empowerment practices are less effective and also difficult to implement in China due to cultural and other institutional differences (Randolph & Sashkin, 2002). This study finds that, in contrast, MNE subsidiaries in China generally implement a higher degree of empowerment practices. Contrary to the implications the cultural determinist literature, a higher degree of empowerment practices are likely to be adopted due to the subsidiary's proactive agency roles. Therefore, HR managers in MNE subsidiaries should not too readily adopt "the Chinese way of doing things" and should pay more attention to the changing local institutional environment and employees' needs and attitudes.

This study also indicates that HR managers in MNEs need to be aware of the headquarter-subsidiary relationship before implementing appropriate degrees of empowerment practices. For instance, when a MNE subsidiary is an Integrated Player, a high degree of empowerment practices is needed. On the contrary, a low degree of empowerment practices will work well for the Global Innovator and a Local Innovator. Additionally, in order to facilitate the transfer of a higher degree of empowerment practices, the parent company needs to invest more effort to cultivate a high degree of trust between the parent company and the subsidiary. It is worthwhile noting that building trust is a cumulative process and both organization-organization trust and inter-personal trust are important (Li, 2005).

### 5.5.2 Limitations and future research

As with all research, this study has limitations. First, this study employed cross-sectional research design, which made the direction of causality difficult to determine. Longitudinal studies could be used to deal with the issue of causality. Second, as all information was collected using one single method, common method bias may affect the validity of the research findings. However, Harman's factors analysis indicated that common method variance is not a significant problem in the present study. Despite that the majority of strategic HRM research employs a single respondent (Boselie, Dietz, & Boon, 2005), future research may deal with common method variance by collecting data from multiple organizational respondents. Third, there are a couple of measurement concerns. For instance, the extent of MNE's global integration was measured using two questionnaire items. Likewise, a dummy variable based on a single questionnaire item was used to measure the presence of foreign directors. The extent of MNE's global integration significantly influences empowerment practices while the impact of the foreign directors is not significant. These results must be interpreted with caution since single-item and two-item measures entail the possibility of reliability problems. While previous HRM research used similar measures, future research needs to explore using more sophisticated measures to improve the validity of the findings in this study. Fourth, although empowerment practices are assumed to be more extensively implemented in Western countries, a small portion of MNEs originated from developed countries and regions in Asia such as Japan. Due to the limited sample size, these MNEs were included in the data analysis. However, as discussed in the Introduction, as these MNEs are fully exposed to international institutional forces, empowerment practices tend to be internalized as legitimate practices in these companies. Previous research on the adoption of Western HR practices by subsidiaries in a hierarchical culture has also assumed that empowerment practices are an integral element of the MNE's headquarters originating from Asian regions (Björkman et al., 2007; Ngo et al., 2011). Furthermore, this study controls for the region of origin effect to mitigate the confounding influence. Future research could address this by considering collecting data only from Western-

owned subsidiaries. Lastly, as with Study 1, this study had the small size problem. The finding of this study are, therefore, likely to lack external validity and the statistical power of the hypotheses test may be reduced. However, this research can be built upon for future research involving more multinational firms as well as local firms in China and other cultural settings.

This study presents several important questions for future research. Firstly, in light of the surprising results relating to perceived cultural distance, future research should probe deep into the significance of sub-national institutional differences for the implementation of empowerment practices. MNE subsidiaries in this sample are located in the most developed provinces in China. These provinces are more exposed to Western cultural influences and are more receptive to Western organizational practices (Gamble, 2006). Future research could compare the effect of sub-national institutions on MNE subsidiaries in different regions in China, such as subsidiaries in Western China versus Eastern China. In addition, it would be helpful to use secondary data sources to measure the institutional distance including cultural distance such as Kogut and Singh's (1988) index and Hofstede's (1980) cultural dimensions.

Secondly, as institutional theory has been criticized for not taking account of organizational strategic goals and self-interests (Oliver, 1991), future research should integrate institutional perspectives with a rational choice perspective to understand the tension between institutional pressures and expected efficiency gains to adopt empowerment practices. For example, strategic HRM literature posits that empowerment practices are adopted to meet the strategic requirement to leverage valuable human resources (Huselid, 1995). It is possible that MNE subsidiaries may follow MNEs' strategies and pursue efficiency gains regardless of the local institutional pressures. Therefore, it would be helpful to investigate how and when MNE subsidiaries will resist the adoption of empowerment practices and other HRM practices in a given institutional environment.

Thirdly, as this study focuses on the determinants of empowerment practices in MNE subsidiaries, future research could explore and compare the determinants of other individual HRM practices such as extensive training and rigorous recruitment with determinants of

empowerment practices. This would provide a deep understanding of how HRM systems are configured in MNEs (Su et al., 2017).



## References

- Arthur, J. B., Herdman, A. O., & Yang, J. (2014). How top management HR beliefs and values affect high-performance work system adoption and implementation effectiveness. *Human Resource Management, 55*(3), 413-435.
- Aycan, Z., Kanungo, R., Mendonca, M., Yu, K., Deller, J., Stahl, G., & Kurshid, A. (2000). Impact of culture on human resource management practices: A 10-country comparison. *Applied Psychology: An International Review, 49*(1), 192-221.
- Bae, J., Chen, S.-j., David Wan, T. W., Lawler, J. J., & Walumbwa, F. O. (2003). Human resource strategy and firm performance in Pacific Rim countries. *The International Journal of Human Resource Management, 14*(8), 1308-1332.
- Bae, J., & Lawler, J. J. (2000). Organizational and HRM strategies in Korea: Impact on firm performance in an emerging economy. *Academy of Management Journal, 43*(3), 502-517.
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management, 17*(1), 99-120.
- Barry Hocking, J., Brown, M., & Harzing, A.-W. (2004). A knowledge transfer perspective of strategic assignment purposes and their path-dependent outcomes. *The International Journal of Human Resource Management, 15*(3), 565-586.
- Bartlett, C. A., & Ghosbal, S. (1987). Managing across borders: New organizational responses. *Sloan Management Review, 29*(1), 43-53.
- Becker, B. E., & Huselid, M. A. (2006). Strategic human resources management: Where do we go from here? *Journal of Management, 32*(6), 898-925.
- Birdi, K., Clegg, C., Patterson, M., Robinson, A., Stride, C. B., Wall, T. D., & Wood, S. J. (2008). The impact of human resource and operational management practices on company productivity: A longitudinal study. *Personnel Psychology, 61*(3), 467-501.

- Birkinshaw, J., Bresman, H., & Nobel, R. (2010). Knowledge transfer in international acquisitions: A retrospective. *Journal of International Business Studies*, 41(1), 21-26.
- Birkinshaw, J., & Hood, N. (1997). An empirical study of development processes in foreign-owned subsidiaries in Canada and Scotland. *MIR: Management International Review*, 37(4), 339-364.
- Birkinshaw, J., Hood, N., & Jonsson, S. (1998). Building firm-specific advantages in multinational corporations: The role of subsidiary initiative. *Strategic Management Journal*, 19(3), 221-241.
- Birkinshaw, J. M., & Morrison, A. J. (1995). Configurations of strategy and structure in subsidiaries of multinational corporations. *Journal of International Business Studies*, 26(4), 729-753.
- Björkman, I., Fey, C. F., & Park, H. J. (2007). Institutional theory and MNC subsidiary HRM practices: Evidence from a three-country study. *Journal of International Business Studies*, 38(3), 430-446.
- Bjorkman, I., & Lu, Y. (2001). Institutionalization and bargaining power explanations of HRM practices in international joint ventures—The case of Chinese-Western joint ventures. *Organization Studies*, 22(3), 491-512.
- Björkman, I., & Welch, D. (2015). Framing the field of international human resource management research. *The International Journal of Human Resource Management*, 26(2), 136-150.
- Beechler, S. and Bird, A. (1994) 'The Best of Both Worlds? Human Resource Management Practices in US-Based Japanese Affiliates'. In Campbell, N. and Burton, F. (Eds.), *Japanese Multinationals: Strategies and Management in the Global Economy*. London and New York, NY: Routledge.
- Boselie, P., Dietz, G., & Boon, C. (2005). Commonalities and contradictions in HRM and performance research. *Human Resource Management Journal*, 15(3), 67-94.

- Bromiley, P., & Cummings, L. (1995). Transactions costs in organizations with trust. In R. Bies, R. Lewicki, & B. Sheppard (Eds.), *Research in negotiation in organizations* (pp. 219-247). Greenwich, CT: JAI Press.
- Bryman, A. and Cramer, D. (1997). *Qualitative Data Analysis with SPSS for Windows: A Guide for Social Scientists*. London, UK: Routledge.
- Cai, X., Lu, Y., Wu, M., & Yu, L. (2016). Does environmental regulation drive away inbound foreign direct investment? Evidence from a quasi-natural experiment in China. *Journal of Development Economics*, 123, 73-85.
- Chan, C. M., Makino, S., & Isobe, T. (2010). Does subnational region matter? Foreign affiliate performance in the United States and China. *Strategic Management Journal*, 31(11), 1226-1243.
- Chang, Y.-Y., Gong, Y., & Peng, M. W. (2012). Expatriate knowledge transfer, subsidiary absorptive capacity, and subsidiary performance. *Academy of Management Journal*, 55(4), 927-948.
- Chen, S. J., Lawler, J. J., & Bae, J. (2005). Convergence in human resource systems: A comparison of locally owned and MNC subsidiaries in Taiwan. *Human Resource Management*, 44(3), 237-256.
- DiMaggio, P., & Powell, W. W. (1983). The iron cage revisited: Collective rationality and institutional isomorphism in organizational fields. *American Sociological Review*, 48(2), 147-160.
- Doz, Y. L., & Prahalad, C. K. (1981). Headquarters influence and strategic control in MNCs. *Sloan Management Review*, 23(1), 15-29.
- Drogendijk, R., & Slangen, A. (2006). Hofstede, Schwartz, or managerial perceptions? The effects of different cultural distance measures on establishment mode choices by multinational enterprises. *International Business Review*, 15(4), 361-380.

- Edström, A., & Galbraith, J. R. (1977). Transfer of managers as a coordination and control strategy in multinational organizations. *Administrative Science Quarterly*, 22(2), 248-263.
- Gamble, J. (2006). Introducing Western-style HRM practices to China: Shopfloor perceptions in a British multinational. *Journal of World Business*, 41(4), 328-343.
- Ghoshal, S. (1987). Global strategy: An organizing framework. *Strategic Management Journal*, 8(5), 425-440.
- Ghoshal, S., & Bartlett, C. A. (1988). Creation, adoption and diffusion of innovations by subsidiaries of multinational corporations. *Journal of International Business Studies*, 19(3), 365-388.
- Gupta, A. K., & Govindarajan, V. (1991). Knowledge flows and the structure of control within multinational corporations. *Academy of Management Review*, 16(4), 768-792.
- Gupta, A. K., & Govindarajan, V. (1994). Organizing for knowledge flows within MNCs. *International Business Review*, 3(4), 443-457.
- Hannon, J. M., & Jaw, B.-S. (1995). International human resource strategy and its determinants: The case of subsidiaries in Taiwan. *Journal of International Business Studies*, 26(3), 531-554.
- Harzing, A. W. (2001). Who's in charge? An empirical study of executive staffing practices in foreign subsidiaries. *Human Resource Management*, 40(2), 139-158.
- Harzing, A. W., & Noorderhaven, N. (2006). Knowledge flows in MNCs: An empirical test and extension of Gupta and Govindarajan's typology of subsidiary roles. *International Business Review*, 15(3), 195-214.
- Hofstede, G. (1980). Motivation, leadership, and organization: Do American theories apply abroad? *Organizational Dynamics*, 9(1), 42-63.
- Hofstede, G. (2001). *Culture's consequences: Comparing values, behaviours, institutions and organizations across nations* (2nd ed.). Thousand Oaks, CA: Sage Publications.

- Huang, Q., & Gamble, J. (2011). Informal institutional constraints and their impact on HRM and employee satisfaction: evidence from China's retail sector. *The International Journal of Human Resource Management*, 22(15), 3168-3186.
- Huselid, M. A. (1995). The impact of human resource management practices on turnover, productivity, and corporate financial performance. *Academy of Management Journal*, 38(3), 635-672.
- Jackson, S. E., Schuler, R. S., & Jiang, K. (2014). An aspirational framework for strategic human resource management. *The Academy of Management Annals*, 8(1), 1-56.
- Jiang, Y., Colakoglu, S., Lepak, D. P., Blasi, J. R., & Kruse, D. L. (2015). Involvement work systems and operational effectiveness: Exploring the moderating effect of national power distance. *Journal of International Business Studies*, 46(3), 332-354.
- Kaufman, B. E. (2015). Market competition, HRM, and firm performance: The conventional paradigm critiqued and reformulated. *Human Resource Management Review*, 25(1), 107-125.
- Kim, Y., & Gray, S. J. (2005). Strategic factors influencing international human resource management practices: an empirical study of Australian multinational corporations. *The International Journal of Human Resource Management*, 16(5), 809-830.
- Kogut, B., & Singh, H. (1988). The effect of national culture on the choice of entry mode. *Journal of International Business Studies*, 19(3), 411-432.
- Kostova, T., & Roth, K. (2002). Adoption of an organizational practice by subsidiaries of multinational corporations: Institutional and relational effects. *Academy of Management Journal*, 45(1), 215-233.
- Kostova, T., Roth, K., & Dacin, M. T. (2008). Institutional theory in the study of multinational corporations: A critique and new directions. *Academy of Management Review*, 33(4), 994-1006.

- Lawler, E. E., Mohrman, S. A., & Ledford, G. E. (1995). *Employee involvement and total quality management: Practices and results in Fortune 1000 companies*. San Francisco, CA: Jossey-Bass.
- Lawler, J. J., Chen, S.-j., Wu, P.-C., Bae, J., & Bai, B. (2011). High-performance work systems in foreign subsidiaries of American multinationals: An institutional model. *Journal of International Business Studies*, 42(2), 202-220.
- Li, L. (2005). The effects of trust and shared vision on inward knowledge transfer in subsidiaries' intra-and inter-organizational relationships. *International Business Review*, 14(1), 77-95.
- Meyer, K. E., & Peng, M. W. (2005). Probing theoretically into Central and Eastern Europe: Transactions, resources, and institutions. *Journal of international business studies*, 36(6), 600-621.
- Meyer, J. W., & Rowan, B. (1977). Institutionalized organizations: Formal structure as myth and ceremony. *American journal of sociology*, 83(2), 340-363.
- Ngo, H.-Y., Foley, S., Loi, R., & Zhang, L. Q. (2011). Factors affecting the adoption of high performance work systems in foreign subsidiaries: An empirical investigation in Hong Kong. *International Journal of Employment Studies*, 19(2), 1-32.
- North, D. C. (1994). Economic performance through time. *The American Economic Review*, 84(3), 359-368.
- Oliver, C. (1991). Strategic responses to institutional processes. *Academy of Management Review*, 16(1), 145-179.
- Pfeffer, J. (1994). *Competitive advantage through people: Unleashing the power of the workforce*. Boston, MA: Harvard Business School Press
- Podsakoff, P. M., MacKenzie, S. B., Lee, J.Y. & Podsakoff, N. P. (2003). Common Method Biases in Behavioral Research: A Critical Review of the Literature and Recommended Remedies. *Journal of Applied Psychology*, 88(5), 879-903.

- Porter, M. E., 1986. Coalitions and global strategy: A Conceptual Framework. In M. E. Porter (Ed.), *Competition in global industries*. (pp. 315-344). Boston, MA: Harvard Business School Press.
- Prahalad, C. K., & Doz, Y. L. (1987). *The multinational mission: Balancing global integration with local responsiveness*. New York, NY: Free Press.
- Pudelko, M., & Harzing, A. W. (2007). Country-of-origin, localization, or dominance effect? An empirical investigation of HRM practices in foreign subsidiaries. *Human Resource Management, 46*(4), 535-559.
- Qin, C., Wang, Y., & Ramburuth, P. (2017). The impact of knowledge transfer on MNC subsidiary performance: does cultural distance matter?. *Knowledge Management Research & Practice, 15*(1), 78-89.
- Randolph, W. A., & Sashkin, M. (2002). Can organizational empowerment work in multinational settings? *The Academy of Management Executive, 16*(1), 102-115.
- Rosenzweig, P. M., & Nohria, N. (1994). Influences on human resource management practices in multinational corporations. *Journal of International Business Studies, 25*(2), 229-251.
- Rosenzweig, P. M., & Singh, J. V. (1991). Organizational environments and the multinational enterprise. *Academy of Management Review, 16*(2), 340-361.
- Roth, K., & Morrison, A. J. (1990). An empirical analysis of the integration-responsiveness framework in global industries. *Journal of International Business Studies, 21*(4), 541-564.
- Roth, K., Schweiger, D. M., & Morrison, A. J. (1991). Global strategy implementation at the business unit level: Operational capabilities and administrative mechanisms. *Journal of International Business Studies, 22*(3), 369-402.
- Schuler, R. S., Dowling, P. J., & De Cieri, H. (1993). An integrative framework of strategic international human resource management. *Journal of Management, 19*(2), 419-459.
- Scott, W. R. (1995). *Institutions and organizations. Foundations for organizational science*. London, UK: A Sage Publication Series.

- Selmer, J., & Lee, S. (1995). International transfer and assignment of Australian and European business executives. *Asia Pacific Journal of Human Resources*, 32(3), 1-12.
- Sheldon, P., & Sanders, K. (2016). Contextualizing HRM in China: differences within the country. *The International Journal of Human Resource Management*, 27(18), 2017-2033.
- Shenkar, O. (2001). Cultural distance revisited: Towards a more rigorous conceptualization and measurement of cultural differences. *Journal of International Business Studies*, 32(3), 519-535.
- Sherer, P. D., & Lee, K. (2002). Institutional change in large law firms: A resource dependency and institutional perspective. *Academy of Management Journal*, 45(1), 102-119.
- Snell, S. A., & Youndt, M. A. (1995). Human resource management and firm performance: Testing a contingency model of executive controls. *Journal of Management*, 21(4), 711-737.
- Su, Z.-X., & Wright, P. M. (2012). The effective human resource management system in transitional China: A hybrid of commitment and control practices. *The International Journal of Human Resource Management*, 23(10), 2065-2086.
- Su Z.-X., Wright P. M. , Ulrich M. D. (2017). Going beyond the SHRM paradigm: examining four approaches to governing employees. *Journal of Management*. In press.  
<https://doi.org/10.1177/0149206315618011>
- Sun, L.-Y., Aryee, S., & Law, K. S. (2007). High-performance human resource practices, citizenship behavior, and organizational performance: A relational perspective. *Academy of Management Journal*, 50(3), 558-577.
- Szulanski, G. (1996). Exploring internal stickiness: Impediments to the transfer of best practice within the firm. *Strategic Management Journal*, 17(S2), 27-43.
- Taylor, S., Beechler, S., & Napier, N. (1996). Toward an integrative model of strategic international human resource management. *Academy of Management Review*, 21(4), 959-985.



- Tregaskis, O., & Brewster, C. (2006). Converging or diverging? A comparative analysis of trends in contingent employment practice in Europe over a decade. *Journal of International Business Studies*, 37(1), 111-126.
- Tsai, W., & Ghoshal, S. (1998). Social capital and value creation: The role of intrafirm networks. *Academy of Management Journal*, 41(4), 464-476.
- Tse, E. (2010). *The China Strategy*. New York, NY: Basic Books.
- Wall, T. D., Wood, S. J., & Leach, D. J. (2004). Empowerment and performance. In Cooper CL, Robertson IT (Eds.), *International Review of Industrial and Organizational Psychology* (Vol. 19, pp. 1–46). Oxford, London: Wiley.
- Warner, M. (2008). Reassessing human resource management ‘with Chinese characteristics’: An overview and Introduction. *The International Journal of Human Resource Management*, 19(5), 771-801.
- Welch, D. (1994). Determinants of international human resource management approaches and activities: A suggested framework. *Journal of Management Studies*, 31(2), 139-164.
- Williamson, O. E. (1985). *The economic institutions of capitalism*. New York, NY: Macmillan.
- Wood, S. J., Burridge, M., Rudloff, D., Green, W., & Nolte, S. (2015). Dimensions and location of high-involvement management: fresh evidence from the UK Commission's 2011 Employer Skills Survey. *Human Resource Management Journal*, 25(2), 166-183.
- Yalabik, Z. Y., Chen, S. J., Lawler, J., & Kim, K. (2008). High-Performance work system and organizational turnover in East and Southeast Asian countries. *Industrial Relations: A Journal of Economy and Society*, 47(1), 145-152.
- Yu, J., & Cooper, H. (1983). A quantitative review of research design effects on response rates to questionnaires. *Journal of Marketing Research*, 20(1), 36-44.
- Zaheer, A., McEvily, B., & Perrone, V. (1998). Does trust matter? Exploring the effects of interorganizational and interpersonal trust on performance. *Organization Science*, 9(2), 141-159.

## **Appendix**

### **Final Ethics Approval**

Appendix of this thesis has been removed as it may contain sensitive/confidential content