

# **Trust and Employment Relations: A Workplace-level Analysis**

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## **INTRODUCTION**

This article examines whether trust between labor and management has significant effects on workplace employment relations. Although it is generally agreed that trust is one of the important elements influencing employment relations outcomes (Walton and McKersie, 1965; Flanders, 1973; Fox, 1974), few have empirically tested the effects of trust on employment relations at the workplace level. There have been studies dealing with trust in the employment context. For example, Laplante and Harrison (2008) analyzed the conditions for the development of trust between manager and union representatives, and Guest, Brown, Peccei and Huxley (2008) examined the relationship between partnership practices and labor-management trust. These papers, however, considered trust as a dependent variable, and were different from the present study treating trust as an important determinant of employment relations outcomes.

The authors hypothesized that trust between management and employee representatives in an organization is an important antecedent of various workplace employment relations outcomes. The present study considered trust as the most essential element of attitudinal structuring (Walton and McKersie, 1965) in labor negotiations. In particular, the present study expected that trust will influence (1) the extent of the adoption of

high performance work systems (HPWSs), (2) the active utilization of labor-management committees (LMCs), and (3) the occurrence of labor disputes.

## **TRUST IN INDUSTRIAL RELATIONS**

The concept of trust has been studied in various fields of social sciences. Trust is regarded as a coordination mechanism reducing social complex in sociology (Luhmann, 1979). In economics, trust is treated as an economic lubricant, reducing the transaction cost among exchange parties (Fukuyama, 1996). In organizational science, trust has the effect of leading risk-taking in inter-personal relationships (Mayer, Davis and Schoorman, 1995). However, in the field of employment relations, relatively little empirical research has been carried out on trust, except some conceptual discussions (e.g. Walton and McKersie, 1965; Fox, 1974; Taylor, 1989) stressed the importance of trust in labor-management relations. Walton and Mckersie (1965), for instance, explained that a high level of trust between labor and management is an important antecedent of a cooperative relationship pattern, and plays a crucial role in integrative bargaining and joint problem solving. Fox (1974) developed the concept of 'trust dynamics'. According to him, in low trust dynamics, a low trust response of one party is countered with a low trust response of another party, and the cycle can run in the opposite direction in high trust dynamics, too. It was argued that the general employment relations was likely to be in low trust dynamics, because each party expected that another party tries to maximize its interests only. Therefore, to make a spiral of high trust dynamics in employment relations, he stressed that one needed the special approach that those two parties accepted other parties' values and roles as legitimate ones. Taylor (1989:87) summarized the importance of trust in employment relations. According to the author, trust enhanced the

quality and quantity of communications, the resource availability from timely and accurate information, and cooperation among constituents as they share responsibility for the firm's performance. After all, the organization could have the adaptability competency to response its environments through trust among organizational members.

In recent years, several studies have attempted to examine empirically the relationship between trust and workplace employment relations identifying trust as dependent variable. These studies mainly focused on the partnership scheme as an antecedent of workplace trust. Dietz (2004) found a positive relationship between partnership forms of managing workplace relationship and the intra-organizational trust, relying on the qualitative evidence from three unionized partnership organizations. Using the quantitative method based on the 2004 Workplace Employment Relationship Survey, Guest, Brown, Peccei and Huxley (2008) found partnership practices weakly related to the trust level between employee representatives and management, and to employees' trust in management. Laplante and Harrison (2008) identified the factors (such as socio-demographic characteristics, socio-economic context, labor relations climate) that had positive effects on trust between union representatives and managers following the adoption of workplace innovations.

Reviewing the studies of trust in employment relations field, we had two questions. First, why have industrial relations scholars paid relatively little attention to the topic of trust? Our opinion to the first question is that most mainstream IR scholars generally subscribe the assumption of traditional industrial relations based upon pluralism. Kaufman(2008) named this paradigms the "modern industrial relations" (MIR). The MIR had some distinctive attributes that were hard to adopt the concept of trust. The MIR had the presupposition that the employment relations are inherently based on the conflict of interests between labor and management. The MIR adopted pluralism as a philosophical basis in solving conflicts in

employment relations. On the other hand, the MIR considered HRM and OB based upon the unitarism, which regard trust as an important element, as separate fields from industrial relations. Scholars with the MIL tradition have regarded trust as an only fragile and temporary concept in employment relations, and that is why relative little attention has been paid to the concept of trust.

Our second question is what was the reason that the previous studies mostly considered trust as a dependent variable? For this question, we pay attention to the efforts to build cooperative employment relations in certain countries such as the U.K., the U.S.A. and South Korea. The typical case is the partnership at work in Britain. In the 1990s, the stakeholders of employment relations in the UK embraced the idea of partnership mainly by the initiation of the government. This specific scheme has promoted to increase workplace cooperation and participation. The proponents of the new paradigm tended to test the effects of partnership on various workplace outcomes including the level of trust between labor and management in organizations. The previous researchers considered trust as a consequence of such activities rather than as an antecedent of cooperative behaviors and practices. We speculate that this was the background why most previous studies regarded trust as a dependent variable in empirical studies (Guest et al., 2007 and 2008).

## **THEORETICAL BACKGROUNDS AND HYPOTHESES**

The present study considers trust as the crucial antecedent of cooperative employment relations. To explain the relationship between trust and employment outcome, we adopt the concept of attitudinal structuring as a theoretical background. Attitudinal structuring is a

negotiation sub-process for managing relationships among each other (Walton and Mckersie, 1965). Distributive and integrative bargaining produce a written contract, but attitudinal structuring creates a social contract. The close personal interaction between labor and management that occurs during the interaction process provides the opportunity for the parties to build trust, and therefore moves towards a more cooperative and less conflict-laden relationship.

Trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intention or behavior of the other (Rousseau et al., 1998). Previous studies suggested that the effects of trust included the reduction of social complex (Luhmann, 1979), the decrease of the transaction costs among exchange parties (Fukuyama, 1996), and the occurrence of risk-taking behaviors in personal relationships (Mayer et al., 1995).

In this context, we believe that trust-based social contracts will increase the possibility that labor and management choose the cooperative strategy, such as the adoption of high performance work systems (HPWSs), the active utilization of labor-management committees (LMCs), and the prevention or resolution of labor disputes.

First, trust between labor and management can be considered as a facilitating factor in the transition from taylorism to HPWS in the workplace, since trust facilitates the innovation from control-based to commitment-based management (Walton, 1985). Also, mutual trust that promises the potential of mutual gains for both labor and management plays an essential role in adopting high-road workplace innovations (Kochan and Osterman, 1994).

More important, the adoption of HPWS imposes the vulnerability on both labor and management. From the view of labor, the change into HPWS may imply a considerable risk to employees themselves. Employees may fear the possibility that the improvement of

productivity through the adoption of HPWS leads to employment reduction, unless the size of the product market grows proportionally. Indeed, this concern has empirical evidence.

Several studies found that the adoption of HPWS practices was associated with a higher level of workforce reduction (Osterman 2000; Iverson and Zatzick, 2007). In the view of union leaders, the support for adopting HPWS has the potential risk to raise a doubt of being patronized by the management side.

In the perspective of management, the implementation of HPWS also brings potential risks. HPWS stresses the importance of information sharing and employee participation. These practices usually require management to share critical and even confidential information with labor leaders and employees, and to weaken management prerogatives in some areas such as job design, new investment, and staffing. If union or employee representatives take advantage of such information and abuse their participative rights in managerial decision-making, however, organizational performance may suffer and management may fall into a difficult situation. Therefore, we believe that the trust between labor and management positively influence the adoption of HPWS.

*H1: A high level of trust between labor representatives and management will have a positive relationship with the adoption of high performance work systems (HPWSs).*

In Korea, labor-management committees (LMCs), that are also called works council, are legally mandated in all establishments over 30 employees. The LMCs are composed of an equal number of members representing both employees and employers. When union members constitute a majority of employees in an establishment, the union can appoint employee representatives of the LMCs. If union members are not a majority in the

establishment, or if employees are not organized, employees elect their representatives by secret and direct ballots. The LMC members are required by the Act to meet at least every three months, when they discuss productivity enhancement methods, employee training, labour-management cooperation programmes, grievance handling, and health and safety issues. The employers are also required to provide information on production and employment plans, as well as on the financial and business situation of the company. Strikes conducted by works councils are legally forbidden. However, the Act of the Promotion of Worker Participation and Cooperation requires LMCs to handle grievances.

In most non-union companies, works councils are the primary institution that represents the interests of employees, and employees view them as an alternative to unions. Although there is considerable variation in the effectiveness and influence of LMCs from one firm to another, many non-union companies (such as Samsung Electronics, Samsung SDI and POSCO) explicitly utilize the councils as a chief means for employees to voice their concerns and participate in decision-making processes (Kim and Kim, 2004).

The previous studies generally reported that, although LMCs were well functioning in many establishments, a significant portion of LMCs were not active in Korea (Kim and Kim, 2004; Kleiner and Lee, 1997; Kim and Feuille, 1998). Thus, the question arises as to what conditions are necessary to utilize LMCs actively. We believe that trust is one of the most important elements in leading to the active utilization of LMCs. With a low-level of trust, information exchanged between labor and management is less likely to be perceived as honest and sincere, and less likely to be utilized extensively in the pursuit of goals of LMCs such as employees' interests and organizational performance than in the case of a high-level of trust. From the standpoint of management, the activation of LMCs can mean the erosion of management prerogatives in the areas such as staffing, working hours, employee training, and

health and safety issues. If the labor-management relationship turns hostile, the active utilization of LMCs may become a substantial burden and disadvantage to management. Thus, management is more likely to want a trusted relationship with labor before the active utilization of LMCs. We expect that trust between labor representatives and management is one of the prerequisites for the active utilization of LMCs.

*H2: A high level of trust between labor representatives and management will have a positive relationship with the active utilization of labor-management committees (LMCs).*

According to the economic theory of strike, the inaccuracy and asymmetry of information has been regarded as one cause of labor disputes (Ashenfelter and Johnson, 1969; Tracy, 1987; Card, 1980). More specifically, at workplace level, the level of labor-management conflict, distributive negotiation strategy, uncertainty and imperfect information have been considered as determinants of labor dispute (Godard, 1992).

Trust is believed to have the impacts on mitigating the possibility of labor disputes through the various mechanisms. First, a high level of trust is expected to result in more active communication dynamics, according to previous studies. Trust has a positive effect on openness in communication within group (Zand, 1972), positive expectation in inter-organizational relationship (Smith and Barclay, 1985), accuracy of information shared with superior (Mellinger, 1959), and amount of information sent to superiors (O'Reilly and Roberts, 1974). Second, various studies reported that trust lowered the level of conflicts within and between groups. Trust between negotiators has a negative effect on conflicts during the bargaining session (De Reu et al., 1998). Trust within a group has a negative effect on conflict among team members (Porter and Lilly, 1996). Third, trust in negotiators was

found to lead to integrative bargaining rather than distributive bargaining, and the former is less likely to result in conflicts in negotiation than the latter (Friedman, 1993). For these reason, we predict that a high level of trust leads to fewer labor disputes than a low level of trust does. :

*H3: A high level of trust between labor representatives and management will have a negative relationship with the probability of the occurrence of labor disputes.*

## **METHODS**

### Data

Using the National Establishments Survey 2009 of Statistics Korea as a sample frame, we utilized a proportional stratified sampling method. Telephone and fax surveys were conducted between October and November, 2010. Both a manager and a labor representative from an establishment were asked to answer the surveys. Out of 3,839 establishments we contacted, we received 1,355 paired responses from both management and labor representatives (the paired response rate was 35.3 percent). After deleting 2 irrelevant responses, 1,353 establishments (300 unionized and 1,053 nonunion establishments) were finally included in the statistical analyses.

### Measures and Analyses

To measure the level of trust, a 17-item question was used. These trust items used by Mayer and Davis (1999), which were widely utilized in trust research, were consisted of three sub-constructs: ability, benevolence, integrity. To assess the divergent validity of the measured trust construct, we applied an exploratory factor analysis, based on the principal

components analysis with the oblique rotation method. Table 1 shows the results of factor analysis and reliability test. As expected, we found a three-factor solution. The value of Cronbach's alpha ranged from .84 to .91. Therefore, the validity and reliability of measurement was found to be acceptable. Trust was measured in three ways: (1) Management → Labor Trust, (2) Labor → Management Trust, and (3) Labor-Management Trust (the average of the above two).

We measured the adoption of HPWSs using 10 items of HRM and IR policies such as comprehensive training program, employee participation, extensive selection (Sun, Aryee, and Law, 2007; Takeuchi et al., 2007). A principal axis factoring analysis showed a single-factor extraction, and the Cronbach's alpha for this 10-item HPWS scale was .82. Table 2 show the results of these tests.

To assess the degree of LMCs activation, we used a single-item question, "How active is the Labor-Management Committee in your organization?" and respondents were asked to answer to a 5-point ordinal scale (very active = 5; very inactive = 1). To measure the occurrence of labor disputes in an establishment, we used a single-item question, "Were there any labor disputes including strikes and lockouts in your establishment in the past 3 years?" (yes = 1, no = 0). In addition, the following control variables were collected and included in the regression analyses: 6 industry dummies, 16 region dummies, organizational size (number of employees), and the type of umbrella union federations (the Federation of Korea Trade Unions, the Korean Confederation of Trade Unions, Independent Union). Descriptive statistics and zero-order correlations are shown in Table 3.

Considering the nature of three dependent variables, the authors chose three regression models. We estimated OLS, ordered probit and binary logistic regression analyses to test the hypotheses.

## **RESULTS**

All three hypotheses were largely supported by empirical results (Table 4). The results showed that the labor-management trust had positive and significant relationships with the adoption rate of HPWSs (H1) and the utilization of active LMCs (H2). Trust was found to have a negative and significant relationship with the probability of occurrence of labor disputes (H3). Based on these empirical results, we come to the conclusion that high levels of trust between labor and management have strong associations with various employment relations outcome in the workplace level than low levels of trust do. We also believe that attitudinal structuring, a socioemotional interpersonal process designed to change attitudes and relationships (Walton and Mckersie, 1965: 5), is a cornerstone of the trust based employment relations.

Interestingly, Labor → Management Trust had stronger impacts on employment relations outcomes than Management → Labor Trust. As shown in Table 4, Labor → Management Trust had significant effects on all three dependent variables, but Management → Labor Trust had been significantly associated only with the adoption rate of HPWS. These results may suggest that in Korea, labor, rather than management, remains the main initiator of employment relations at the workplace level. We believe that this finding could vary from country to country depending on the history, culture and power relations of labor relations in a certain country.

## **CONCLUSION**

The present study suggests that trust, which has been under-evaluated in employment relations research, is indeed an important construct that deserves more extensive investigations in future employment research. The present study was focused only on the workplace level. Further studies may address the impacts of trust at different levels. For instance, the relationship between the level of general trust and strike propensity in the country level is worth investigating.

Limitations of the present study should be mentioned. We must note that this study has a potential reverse causality problem due to the cross-sectional nature of the data. That is, it is equally possible that the three dependent variables (the adoption of HPWS, the active utilization of LMCs, strike occurrence) in the present study might lead to certain levels of trust. Since trust was found to be an antecedent (in the present study) as well as a consequence (in the previous studies) of cooperative employment relations, causality problem could be addressed by a longitudinal research design in a more effective way.

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**Table 1. Factor Analysis (Pattern Matrix) and Reliability Test of Trust Items.**

Trust items	Management→(A)Labor			Labor→(A)Management		
	Ability	Benevolence	Integrity	Ability	Benevolence	Integrity
A1. (A) is very capable of performing its job.	-0.20	<b>0.75</b>	0.32	0.00	<b>-0.80</b>	0.03
A2. (A) is known to be successful at the things it tries to do.	-0.17	<b>0.79</b>	0.22	0.05	<b>-0.86</b>	-0.12
A3. (A) has much knowledge about the work that needs done.	0.04	<b>0.78</b>	-0.05	0.07	<b>-0.76</b>	-0.02
A4. I feel very confident about (A)'s skills.	0.21	<b>0.74</b>	-0.13	0.01	<b>-0.79</b>	-0.01
A5. (A) has specialized capabilities that can increase our performance.	0.10	<b>0.87</b>	-0.14	-0.13	<b>-0.95</b>	-0.01
A6. (A) is well qualified.	0.08	<b>0.86</b>	-0.09	-0.08	<b>-0.94</b>	-0.01
B1. (A) is very concerned about my welfare.	0.05	-0.04	<b>0.84</b>	-0.18	-0.06	<b>0.85</b>
B2. My needs and desires are very important to (A).	0.23	0.05	<b>0.64</b>	0.05	0.06	<b>0.84</b>
B3. (A) really looks out for what is important to me.	0.23	0.07	<b>0.63</b>	0.13	0.03	<b>0.76</b>
B4. (A) will go out of its way to help me.	0.27	0.10	<b>0.57</b>	0.18	0.05	<b>0.73</b>
I1. (A) has a strong sense of justice.	<b>0.72</b>	0.02	0.06	<b>0.59</b>	-0.02	0.19
I2. I never have to wonder whether (A) will stick to its word.	<b>0.79</b>	0.03	0.00	<b>0.67</b>	0.00	0.17
I3. (A) tries hard to be fair in dealings with others.	<b>0.86</b>	-0.05	-0.02	<b>0.76</b>	-0.01	0.04
I4. (A)'s actions and behaviors are very consistent.	<b>0.77</b>	-0.03	0.06	<b>0.80</b>	-0.08	-0.09
I5. I like (A)'s values.	<b>0.72</b>	0.04	0.08	<b>0.96</b>	0.06	-0.13
I6. Sound principles seem to guide (A)'s behavior.	<b>0.80</b>	0.03	0.03	<b>0.83</b>	0.03	0.06
Cronbach's alpha	0.91	0.84	0.89	0.90	0.87	0.90

*Note.* Loadings greater than .40 are in boldface.

**Table 2. Factor Loadings for the High-Performance Work Systems Scale**

High Performance Work Systems Item	Factor loading
1. Extensive training programs are provided for individuals in front-line jobs etc.	0.71
2. There are formal training programs to teach new hires the skills they need to perform their job	0.62
3. Formal training programs are offered to employees in order to increase their promotability in this organization.	0.60
4. Employees in this job can be expected to stay with this organization for as long as they wish.	0.45
5. Our compensations include high wages.	0.61
6. Compensation packages include an extensive benefits package.	0.66
7. Close tie or matching of pay to group/organizational performance.	0.65
8. Employees are often allowed to participate in various decisions.	0.63
9. Employees are provided the opportunity to suggest improvements in the way things are done.	0.67
10. Supervisors keep open communications with employees.	0.68
	Cronbach's alpha 0.82

*Note.* Principal axis factoring analysis with single-factor extraction.

**Table 3. Descriptive Statistics and Zero-order Correlations**

Variable	M	SD	1	2	3	4	5	6	7	8	9	10
1. HPWS	3.28	0.47										
2. Active LMCs	3.37	1.01	0.23 ***									
3. Labor disputes	0.06	0.24	-0.13 **	-0.18 ***								
4. Management→Labor Trust	3.83	0.53	0.38 ***	0.01	-0.13 **							
5. Labor→Management Trust	3.73	0.55	0.42 ***	0.02	-0.22 ***	0.49 ***						
6. Labor-Management Trust	3.78	0.47	0.47 ***	0.02	-0.21 ***	0.86 ***	0.87 ***					
7. Organizational Size	1.59	0.93	0.09 ***	0.35 ***	0.15 **	-0.11 ***	-0.16 ***	-0.16 ***				
8. FKTU	0.65	0.48	-0.01	0.20 ***	-0.13 **	0.05	0.08	0.08	0.09			
9. KCTU	0.18	0.38	0.06	-0.08	0.20 ***	-0.09	-0.08	-0.10 *	0.07	-0.64 ***		
10. Independent Union	0.17	0.38	-0.05	-0.17 ***	-0.04	0.03	-0.03	0.00	-0.18 ***	-0.62 ***	-0.21 ***	
11. Unionization	0.22	0.42	0.03	0.37 ***	—	-0.20 ***	-0.27 ***	-0.27 ***	0.61 ***	—	—	—

*Note.* \*\* Statistically significant at the .05 level (two-tail test); \*\*\* at the .01 level (two-tail test).

**Table 4. Trust and Employment Relations at Workplaces: Regression Results**

Variables	High Performance Work Systems		Active Labor-Management Committees		Labor Disputes	
	(1) OLS		(2) Orderd probit		(3) Binary logistic	
Constant	1.37 *** (0.10)	.36 *** (0.10)			-15.99 (0.00)	
Organizational Size	0.06 *** (0.01)	0.06 *** (0.01)	0.29 *** (0.04)	0.28 *** (0.04)	0.72 ** (6.32)	0.72 (6.12)
KCTU <sup>a</sup>					1.65 ** (5.71)	1.66 ** (5.80)
Independent Union <sup>a</sup>					0.40 (0.17)	0.34 (0.12)
Unionization	-0.24 *** (0.04)	-10.23 *** (0.04)	-1.03 *** (0.12)	-1.02 *** (0.12)		
Management→Labor Trust[A]	<b>0.20 ***</b> <b>(0.02)</b>		0.03 (0.07)		-0.73 (1.59)	
Labor→Management Trust[B]	<b>0.27 ***</b> <b>(0.02)</b>		<b>0.35 ***</b> <b>(0.06)</b>		<b>-1.46 ***</b> <b>(8.50)</b>	
Labor-Management Trust[(A+B)/2]		<b>0.47 ***</b> <b>(0.02)</b>		<b>0.39 ***</b> <b>(0.07)</b>		<b>-2.30 ***</b> <b>(10.91)</b>
(Cox & Snell) R <sup>2</sup>	0.36	0.36	0.29	0.29	0.18	0.18
F or Chi-Square	31.07***	32.19***	465.07***	456.48***	59.30***	58.51***
N	1353	1353	1353	1353	300	300

*Note.* The Tables presented estimated coefficients and standard errors [(1), (2)], and the wald ratio [(3)] in parentheses. All models included 6 industrial and 16 regional dummy variables. Model (3) analyzed the unionized establishments only.

<sup>a</sup> the benchmark category was the FKTU.

\*\* Statistically significant at the .05 level (two-tail test); \*\*\* at the .01 level (two-tail test).