

# **Guanxi and Multinational Hiring Practices**

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## Introduction

When studying the literature on doing business in China, it is difficult to get very far without running into a reference on the importance of *guanxi*. Most every book on Chinese business practices devotes a chapter or a significant section to it, and many papers and reports exist on navigating its rules, establishing it, and cultivating it for the benefit of your company or business in the country. It is considered a pervasive practice, an inherent necessity in getting things done in the most efficient matter, and in many cases getting things done at all. Whether ties to governmental entities or other important members of the business community, the weight of your *guanxi* ties, and your ability to effectively use them, is considered a large part of what it takes to succeed.

*Guanxi*, while sharing many of the traits of social and business networks used throughout the world, is regarded by many as a fundamentally Chinese trait. The reasons for this are various: the prevalence of the practice in the country, the resonance it shares with certain traditional Chinese cultural philosophies, and the specific rules and etiquette that are parts of its practice. This gives rise to a question, however. If *guanxi* as a specific practice is inextricably linked to the culture and environment of China, a country that has changed thoroughly and substantially over the course of the last three decades, is it possible that *guanxi* itself has changed as well? Given that a large portion of this change has been as a result of the opening-up policies, the influx of Western influence and Foreign Direct Investment (which itself tends to demand, as much as possible, to follow its own set of rules and etiquettes), to what extent do the traditional views of *guanxi* still hold true?

This paper is an attempt to answer this question: has the influence of Western companies and economic reforms had an effect on this traditional Chinese cultural practice or artifact,

specifically with regard to the effect of *guanxi* connections on hiring practices, within foreign companies operating within China? That is to say, does the ideal Western scenario, where hiring is based on merit, override the traditional notion of the importance of *guanxi* and connections in the minds of the Chinese workforce that gains employment at Western multinationals. The question of this effect needs to be considered on two levels: the superficial and the actual. On the superficial level it is compliance with existing rules. In order to obtain employment with a Western firm, it is necessary for them to accede to the formalized hiring processes of the Western firm that they are seeking employment from. However, this does not truly show a change in the actual opinion those workers have towards the fairness or necessity of those practices.

This paper attempts to examine and address the actual opinion a selection of Chinese workers hold towards the comparative fairness of the use of *guanxi* connections in seeking employment, versus employment based on skills and merit. It will build off cultural research done by John Dunning and Chiangsu Kim (2008), with a survey given to employees in an American MNC located in Shanghai, China. In addition to the work contributed by Dunning and Kim, it will provide a series of questions attempting to isolate opinions not just on the cultural affinity of *guanxi*, but on direct opinions, through vignettes, of the fairness of *guanxi* practice in hiring. The operational method in this research is to test whether age or length of employment has an effect on the opinion workers hold towards *guanxi* and its set of practices. The central hypothesis behind this paper is that both will have an effect, and that effect will be as follows: as age decreases or employment increases opinions of favorability towards the cultural components of *guanxi*, and particularly *guanxi* practices, will decrease. This discernment between *guanxi* and *guanxi* practices is important, as will be discussed further in the paper. Whereas *guanxi*

itself contains many other potential meanings or frames of reference than just business or economic relations, the practice that surrounds it concerns more specifically the usage of relationships in order to receive benefits. This is frequently thought of as evidence of corruption, and is one of the ways in which *guanxi* is considered different from standard traits of social networks.

When discussing the existence and prevalence of *guanxi*, it ultimately becomes necessary to consider it in light of both cultural and institutional aspects. As such, a rigorous definition of both culture and institution is necessary in order to move forward. Edgar Schein defines culture as: “(a) pattern of basic assumptions -- invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration -- that has worked well enough to be considered valid and therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.”<sup>1</sup>

In contrast, an institution is a set of structures and mechanisms of social order and cooperation governing the behavior of a set of individuals within a given human collectivity. They are identified with a social purpose and permanence, transcending individual human lives and intentions, and with the making and enforcing of rules governing cooperative human behavior.<sup>2</sup> The key difference is in the level of formality and organization. While culture is a broad pattern of largely informal assumptions, institutions are more formalized structures, often associated with government and governing. In many ways they create and lead to each other. As cultural assumptions are developed within a society, they are often codified and set into formalized, institutional mechanisms. By the same token, it is also possible for a institution, once implemented, to have an impact on culture and cultural transmission.

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<sup>1</sup> Schein, p 9

<sup>2</sup> Citation needed

This duality is at the heart of this paper, the ways in which institutions -- such as Western multinationals, their direct investment, and their transmission of formal and informal values -- and informal cultural artifacts such as *guanxi* play both with and against each other, shaping the perceptions of Chinese individuals within the multinational workforce.

## **Current State of Literature**

*Guanxi* in China has, as mentioned, been researched and studied by Westerners and Chinese very rigorously and over a long period of time. While, from the Western point of view, it was primarily an anthropological pursuit in the early and mid parts of the 20<sup>th</sup> century, it has captured the interest of business researchers and businessmen since the opening of China and the Western influx of direct investment following 1978. From a strategic perspective, *guanxi* may be a powerful tool for a company or an individual, and deserves consideration. Of Michael Porter's Five Factor's of Competitive Advantage, two of them especially – power of suppliers and power of customers – can be heavily influenced by *guanxi*, both for advantage and disadvantage. Cultivating and maintaining *guanxi* can lead to benefits, be they a quicker approval time for a project, resources that might not otherwise be available, or the referral of a particular client. Strategically, the sentimental and personal nature of *guanxi* relationships demands a more personal touch, resulting in the need for some degree of localization while doing business, rather than a purely international orientation.

However, despite the immense volumes of material regarding the subject, there remains debate and questions within the field over the usage of *guanxi* within Chinese business, and how it has or has not begun to change. As the reforms of the modern era progress, there is much friction between the old and the new, and cultural practices such as *guanxi* have become subjects

of debate. There is a progressing debate about the importance of *guanxi* in the modern setting – how this importance is changing, and in what ways. As the reforms progress and as Chinese who have been raised to adulthood in the modern China enter the workforce and then are promoted into decision-level roles, the role of this artifact has and will be called further into question.

A primary focus in the ongoing debate concerns the reason for the continued existence of *guanxi*. On the one hand, there are scholars and researchers who believe that *guanxi* is a cultural artifact that has risen from the particular history and historical needs and methods of Chinese society. It remains in use in society today due to the influence of historical philosophies, such as Confucianism, and as a hold-over from the relational infrastructure of the Maoist era. On the other side are those who regard it, not as a current institution in its own right, but rather as an informal response to the lack of other institutions in Chinese society, such as a third-party legal system to act as a regulator and enforcer of contracts. Due to the lack of codified, formalized laws for operating in the Chinese economy, the cultivation of the proper relationships with powerful operators and decision makers and the ability to call upon them for favors or favorable consideration becomes more important, particularly more important than the same types of connections come in the business environments of the more legalized Western economies.

Given these differences concerning the fundamental reasons for the existence of *guanxi* in business and society, it is not surprising that there are also differences of opinion regarding the increase or decrease of the relative importance of it within business and society. While some researchers have found that the practice has decreased in importance, others have found that it has remained unchanged or even increased in importance as reforms have advanced. Certain assumptions underlie much of the existing literature, leading potentially to confirmation bias in

conclusions that are drawn. Institutional theorists start by assuming that there is change as institutions develop, and thus find change. Cultural theorists start with the assumption that cultural effects are strong, and thus find less change.

There are, as well, certain methodological problems and oversights in the existing research. One of the more important ones is the failure to distinguish between social connections, relationships, and *guanxi* practice. This is an important consideration for a few reasons. *Guanxi*, in both its traits and its usage, has much in common with social networking as it exists in virtually all economies, Eastern and Western alike. While it is considered to have, in China, specific and unique aspects to it, these unique aspects are not always rigorously defined or followed in examining it, creating a great blur in the ability to tell what is uniquely Chinese and what is not.

Another important oversight is the lack of consideration given in many places to the enormous and diverse cultural and economic environment that is the whole of China. China has undergone great and inconsistently implemented change over the past three decades that may have had far different effects on individuals and even communities, dependent on different structural positions within the country and society. As the reforms have progressed there has been significant change and development in the political and economic institutions, but the intensity, pervasiveness, and nature of these changes have differed from place to place, group to group, and individual to individual. Different demographics in such a large and varied cultural and institutional environment as currently exists in China will invariably provide different results. Between rural and urban, rich and poor, and potentially even between young and old, there exists a potential to see vast differences in opinions, behaviors and practices regarding *guanxi* and other aspects of Chinese society.

## Essence of Contribution

What this paper contributes is an examination of the views towards both the cultural factors of *guanxi* as well as the practices of *guanxi* itself, held by young Chinese decision makers and workers operating in multinational, foreign firms within China, operating under the theory that as exposure to substitutes for *guanxi*, such as codified laws and processes, favorability towards *guanxi* itself will decline. The purpose of this contribution is to provide what could be seen as a best case scenario for change in the perceptions of the importance of both of these aspects of *guanxi* within business and society. For young Chinese workers, the effects of change in both the cultural and institutional environment may be substantial. It has been over 30 years since the death of Mao and the change in policy direction by the Chinese leadership regarding outside influence and Communist goals, and for the new generations of workers, having grown up entirely during the reform era, it is not properly assumable that the old methods of either the Communists or the previous Confucian dynasties hold as true as they might have once done. For the subsection of young workers operating within Western firms, and beholden to the institutions these firms are beholden to (such as meritocratic hiring and transparent and codified rules and laws), this difference may be further expanded.

This work offers a few things to the existing field of literature. First, it will provide a direct comparison with the prior research conducted by Dunning and Kim, and a test on the reliability of the methods conducted by those researchers. Should the methodology yield the same consistently identifiable trends it will be an indication that their methods are sound. Further, asking the same culture related questions to a different set of respondents lead to potentially different outcomes in conclusions. While Dunning and Kim asked their questions to students in peripheral universities in Singapore, this study asks those same questions to those

working in a high-prestige foreign firm, and having already gone through the hiring process and working in the firm's different cultural environment, it is possible that Dunning and Kim's findings will not hold consistently true. By further isolating age and length of employment as variables, it may be possible to identify the success of Western influence on the Chinese population as time has passed.

This paper also attempts to isolate opinions on *guanxi* practice itself, with regard to the fairness of relationships influencing meritocratic hiring processes. It will attempt to isolate the particular characteristics of *guanxi* that are not shared by the social networking practiced in other places, and see how much these particular characteristics still are viewed favorably by the individuals. Finally, it provides the Chinese workers' particular definitions of social connections, in order to isolate patterns and commonalities shared by this set of workers. This may offer insight into not just the state of *guanxi* in Chinese society today, but implications for the future. As these working youth reach higher age and reach higher levels of seniority within companies, their perspectives on the practice will potentially affect the development and continuation of reform for many years to come.

## **Path Forward**

The following sections will develop these ideas and concepts in order to answer the central question of the effect of reform on Chinese workers in foreign multinationals. Section 1 will provide a more specific and rigorous examination of the state of literature discussed earlier in this introduction. Section 2 will expand on the conceptual framework, theory and methodology contained in this paper. Section 3 will cover the application of that theory, and the implementation and analysis of the data. Finally Section 4 will take the applied and analyzed

data and attempt to reach conclusions based on that analysis, and with regard to the basic question being asked.

## Literature Review

### What is *guanxi*?

*Guanxi* 关系 is a Chinese word that roughly translates as “to relate to” as a verb or “relationship” as a noun. Like many Chinese words, the ideographic nature of the language makes a direct translation difficult. The traditional form of the first character, 关, is a combination of two radicals (pieces of a Chinese character that establish meaning and often sound), one a semantic radical that means “gate,” the other a semantic/phonetic radical that means “web.” Its base meanings include “to close,” “closed” and “relation.” The second character in traditional form is a composite of the radical for “thread” and “man,” and means “to connect to” or “related to.”

The literal translation of the characters has been given as “to break past the gate and make a connection,”<sup>3</sup> providing implications for both an in-group/out-group philosophy and the human element that it often involves in its usage in Chinese culture. In practical use, it refers to the concept of commonalities and connection between two things. Although in business usage it invariably signifies the relationships between people, it is important to know that in Chinese the use of the word *guanxi* is *not* limited to the relationships between people. It is also used to link

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3 Lee and Dawes 2005

abstract concepts and other things that have commonalities. In other words it says that two things are, in fact, related to each other in some way, whether socially, practically, or abstractly.

This semantic nuance is important because it represents a problematic over-simplification of the word *guanxi* in modern usage into just the social (and, by extension, business) context.<sup>4</sup> As will be shown later in this writing, a great deal of modern debate over the prevalence, social opinion, and trends in the usage of *guanxi* relies heavily on just what, exactly, is to be defined as *guanxi* in the first place. Douglas Guthrie provides perhaps the most useful comparison in suggesting that *guanxi* on its own be left to the more innocuous usages of the term, while the social practices themselves, which are generally the topic of scholarly research, should be categorized under the term *guanxixue* (final character 学: to study, to learn, but also to utilize).<sup>5</sup>

The problem with this approach, however, is that the concepts summarized by the term *guanxixue* have become linked with the more negative aspects of the practice – symbolic of back-room deals, paternalism, and corruption.<sup>6</sup> Due to the ease of the term, the practice of using *guanxi* for benefits will, throughout this paper, be signified by the term *guanxixue*. The systems of patronage and reciprocation used by the elites to maintain their power in traditional Chinese culture, has something to do with this negative view, but most of the stigma now is closely associated with the planned and managed economy of the Maoist era and early reform, where the chaotic and often lawless nature of the social environment made relationships and their utilization one of the key factors for success. These relationships often did represent bribes and corruption, as local officials used their hold over resources to give friends contracts and positions, and often lined their own pockets in the process.

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4 Guthrie 2002, p 40

5 Guthrie 2002, p 39

6 Guthrie, Gold, and Wank 2002, p 8

So what is this social context of the word *guanxi*? At its most basic, understood form, it is a broad-reaching, almost all-encompassing view of the web of social relationships that exist between people, and how the threads of those webs *can be utilized* to gain influence over decision-making at any point within the society.<sup>7</sup> The *guanxi* relationship is often based on similarities of experience, whether they be kinship, membership in a particular social in-group, graduation from the same school, or another social connection. It is, in addition, possible to create a connection, and thus to create *guanxi*, without a prior connection, although the easiest method to do so is to utilize a mutual relationship, with the third party as an intermediary and introductory agent. Regardless of the method used to create *guanxi*, it is something that must be consciously cultivated and maintained as long as it is needed.

In the basic sense, *guanxi* is similar to Bordeaux's notion of social capital, which “is the aggregate of the actual or potential resources which are linked to possession of a durable network. . . which provides each of its members with the backing of the collectively-owned capital. . . which entitles them to credit, in the various senses of the word.”<sup>8</sup> Being a form of capital, its importance is held to be how it can be converted into another form of capital when necessary. Gold, Guthrie, and Wank suggest that in “the case of China, *guanxi* capital is generally accumulated with the intention of converting it into economic, political, or symbolic capital.”<sup>9</sup> (p7) Such symbolic capital can be as important as the others, such as in the conversion of *guanxi* into face (*mianzi*) or sentiment (*renqing*). Yunxiang Yan and Lucian Pye also demonstrate the importance of this symbolic capital, where the demonstration that one can effectively solicit favors, or that one can deliver favors when called upon, helps to reinforce an

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7 Ibid. p 7

8 Bourdieu 1986, pp 248-249

9 Gold, Guthrie, and Wank 2002, p 7

individual's perceived prestige.<sup>10</sup> It is argued, however, that *guanxi* goes beyond this notion of social capital, to encompass something uniquely Chinese.<sup>11</sup> In this regard, there are traits that provide practical differences, as well as a greater cultural context that help to bolster this viewpoint.

Practically, Yang argues that the first, major difference between *guanxi* and other forms of social networking is that *guanxi* is “based implicitly (rather than explicitly) on mutual interest and benefit. Once *guanxi* is recognized between two people, each can ask a favor of the other with the expectation that the debt will be repaid sometime in the future.”<sup>12</sup> In this way, it becomes more than an issue of social connectivity, but a system wherein gifts and favors are given in order to manufacture indebtedness and obligation between parties. This indebtedness, in contrast with the view of many other cultures in the world, is considered in this context as a positive development, rather than negative. It is seen to promote stability and harmony by tying two people or entities together in mutual interest and benefit. All of this creates, in the words of Gold, Guthrie and Wank, a “basis for a gift economy that exists in China, and this economy has specific rites, rituals, and rules attached to it.”<sup>13</sup> The fact that these rules and rituals are variable and generally unspoken does not lessen their importance in relationship building in China, and speaks perhaps to the differing perspective the Chinese have on formalized and codified rules, as will be discussed a little later in this section.

The other significant component that Gold, Guthrie and Wank bring up is the importance of affect, or sentiment (感情 *ganqing*) within *guanxi* relationships. They say: “Although many

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10 Yan 1996, p 21; Pye 1992, pp 207-8

11 Yang, 1994

12 Ibid. pp 1-2

13 Gold, Guthrie and Wank 2002, p 7

foreign commentators (business people prominent among them) believe that *guanxi* functions almost exclusively for instrumental purposes, Chinese frequently stress that true *guanxi* must possess an affective component.”<sup>14</sup> They add that “this combination of instrumentalism and sentiment strikes many observers (and practitioners) as contradictory at best, cynical at worst.”<sup>15</sup> Andrew Kipnis elaborates on this: “Unlike economic contracts, which specify material obligations without necessarily involving human feelings, practices of *guanxi* production invoke a world where depth of feeling and material debt go together.”<sup>16</sup> He then draws the perceived contradiction to a history of Western cultural development that “describe(s) Euro-American history as involving the separation of economic relationships from the rest of social life,”<sup>17</sup> with the result that Western philosophy and culture “implicitly opposed amoral commodity exchange to moral kinship.”<sup>18</sup>

Dunning and Kim also offer, in an attempt to solidify the perception of what *guanxi* is, a guideline of six traits that attempt to define it, or at least constrain it into a more identifiable concept. These traits are a primary component of the research and data collection that follows, and so they are listed here. They are as follows:

1. Utilitarian: It is driven by personal interests and bonds two individuals through the exchange of favors rather than simply by sentiment. (This can be seen as the aspect that is most oriented with *guanxixue*)
2. Reciprocity: The relationship implies perpetual expectations of payment and repayment of favors, but it is noted that reciprocity does not need to be equal between both parties.

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14 Ibid. p 8

15 Ibid.

16 Kipnis 2002, p 24

17 Ibid. p 26

18 Ibid.

3. Transferable: The affect of the relationship can be passed to a new party by a member of the original relationship. If A knows B, and B knows C, B can introduce C to A.
4. Personal: It operates at the level of the individual, and its key ingredients: reciprocity, trust, respect, and social status are all personal in nature.
5. Long-term: Relationships are established and cultivated over a long timeframe, and repayment of obligations is, as mentioned, generally regarded as perpetual.
6. Intangible: Emblematic of a high-context culture, *guanxi* relationships are generally unspoken, undefined formally, and unregulated by codified or established formal measures. The main enforcement mechanism is the damage to one's face or social standing accrued by a broken arrangement.<sup>19</sup>

In applying their data, these six traits are then collapsed down into three underlying factors. The first is Social Networks, which encompasses the transferable and reciprocal traits. This is the aspect of *guanxi* that includes creation of new networks and the maintenance of one's position in them, and the informal rules that govern it. The second is Personal Relationships, which includes the traits for Personal, Long Term, and Intangible. This is the aspect that operates at the individual level. The last is Relational Capital, which encompasses the utilitarian aspect of self-benefit and the granting of favors in *guanxixue*.

Dunning and Kim's study attempts to test the perception of these individual traits held by people in China, and their connection to the cultural aspects of Power Distance and Collectivism. The questions that they come up with have been adopted for use in this study, which will be extrapolated on in later sections. These two terms, Power Distance and Collectivism, were

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<sup>19</sup> Dunning and Kim, 2007

introduced by the cultural study of Geert Hofstede, and since they are a primary component of the survey used in this project, they will be defined here.

Collectivism/Individualism is the trait that defines a social orientation towards either the group or the individual. A society that has a high score in Collectivism and low in Individualism is considered to place greater value on the interests of the group or the whole over the individuals that make up that group. In contrast, a society that scores low in Collectivism and high in Individualism is more likely to place greater value on the individual than on the group. In Hofstede's scale, China scores low in Individualism (Thus high in Collectivism), with a score of 20, under the average of Asian Countries at 24. In contrast, the United States scores exceptionally high in Individualism with a score of 91 (out of 100), making it the highest scorer, nationally, in this index.

Power Distance is the cultural trait that deals with how a society feels towards the degree of hierarchy and inequality between people in the nation. The United States has a score of 38 on Power Distance, while China scores much higher, at 80. A low score on Power Distance represents a view of greater egalitarianism, while a high score represents a much greater sense of the existence of status and hierarchy.<sup>20</sup> Both of these traits have strong Confucian undertones, as the Confucian tradition placed a strong emphasis on subordinating personal desires to the family, the community, and the nation, as well as advocating for a very hierarchical society constructed around the strong relationships between superiors and inferiors.

The existence and prevalence of *guanxi* in China is generally explained in both cultural and institutional terms. Culturally, it is considered the vestiges of Confucian culture, which has

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<sup>20</sup> Hofstede, 1980

been the primary philosophy of China since the Han Dynasty (206 BCE – 220 CE).<sup>21</sup> Indeed, a reading of the *Analects*, the foundational Confucian text, reveals a great many similarities in form to the social traits emphasized by *guanxi*. For instance, we see in book 4.15: “The Master said: ‘Shen, my doctrine has one single thread running through it’. . . . ‘The doctrine of the Master is: Loyalty and reciprocity, and that’s all.’”<sup>22</sup> Also worth considering are the many nods to the importance of ritual, relationships and support, such as in book 1.13: “If your manners conform to the ritual, you will be able to keep shame and disgrace at bay. The best support is provided by one’s own kinsmen.”<sup>23</sup>

Dunning and Kim, on the subject of relationships and dependence, suggest that “in Confucian societies, an individual is first and foremost a relational being and part of a communitarian social system. The Chinese live in an intricate web of personal and social inter-connections.”<sup>24</sup> This emphasis on an individual’s relationship with the others around them suggests the causes of the collectivist nature of Chinese society, as evidenced by the cultural studies of both Hofstede and the GLOBE project, as well as suggesting a reason for the prevalence of the relationship capital of *guanxi* within the country. Moreover, some of the key traits of *guanxi*, as defined above, share significant similarities with some of the more important Confucian concepts. Beyond the simple importance of relationships, Confucian relationships, as noted, imply a hierarchy, with one who seeks favors and one who confers them. Further, the importance of affect or sentiment within relationships has a degree of similarity with the Confucian aspect of *ren* (仁), or humaneness, which emphasizes respect and shared humanity amongst all people, but especially towards social inferiors. The *Analects*, book 6.30, says on

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21 Ibid. p 2

22 Leys, p 17

23 Leys, p 5

24 Dunning and Kim 2007, p 330

humaneness: “As for the humane man: what he wishes to achieve for himself, he helps others to achieve; what he wishes to obtain for himself, he enables others to obtain. . . .”<sup>25</sup> But Confucius himself even emphasized the ability to both care for the well-being of others while securing benefits for himself. Book 4.2 says “(a) good man rests in his humanity, a wise man profits from his humanity.”<sup>26</sup> This relationship is often defined in traditional literature by wise and rich scholars being benefactors to upcoming students, providing them financial assistance in return for the promise of future repayment once the student becomes an official. An example of this relationship, for instance, is found in the first chapter of the great novel *Dream of the Red Chamber*, in which the old scholar Chen Shi Yeh takes in the young scholar Chia Yu-tsun, who receives aid in order to travel to take the examinations, and become a high-ranking government official.

Dunning and Kim suggest that these traits provide a foundation for the modern culture of the Chinese, as defined by Hofstede<sup>27</sup> and the GLOBE<sup>28</sup> study. They see the Confucian aspect of hierarchy as resulting from the high score for Power Distance, and the aspect of social harmony as resulting from the high score of Collectivism. They suggest that *guanxi*, under these conditions, supports these values. However, it also works to structure communication within companies in opposition to traditional hierarchical communication, with the internal *guanxi* network providing a bottom-up chain of communication to counter the top-down hierarchical command structure of the Chinese company.<sup>29</sup> While Chinese workers are uncomfortable with giving superiors direct feedback (which is itself often considered a sign of their high-Power

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25 Leys, p 28

26 Leys, p 15

<sup>27</sup> Hofstede 1980

<sup>28</sup> House et al 2004

<sup>29</sup> Dunning and Kim 2007

Distance culture, the use of informal lines of communication through the social and relational network allows information to filter upwards, rather than solely in a downward fashion.

While the characteristics of *guanxi* are thought of as having a large cultural component, research has attempted to dig past that, claiming it as a solely social Chinese phenomenon, being a distinct product of both recent and older historical circumstances. Mayfair Yang, according to Gold, Guthrie and Wank, spends a great amount of time “link(ing) China's contemporary gift economy to the institutional upheaval of the Cultural Revolution, . . . nevertheless links the current incarnation. . . to the ancestral forms of *guanxixue* gifts and etiquette.”<sup>30</sup> Yang draws the contemporary form's origins “to an ancient past. . . when a conflict between two discourses, Rujia (later called Confucianism) and Fajia (or Legalist, the philosophy of government from the dictatorial Qin empire, which stresses clear and codified laws that are followed absolutely by the citizenry), first took place.”<sup>31</sup> Yang argues “that the antecedent of China's current gift economy is the early Confucian discourse on a ritualized state and society that placed social relations (as opposed to a rationalized objective legal system) at its center.”<sup>32</sup> According to this cultural perspective, the Chinese have since antiquity put more emphasis on the judgment of men, and therefore the rule of men, rather than a reliance on simple, codified law.<sup>33</sup> The *Analects* book 2.3 says “Lead them by political maneuvers, restrain them with punishments: the people will become cunning and shameless. Lead them by virtue, restrain them with ritual: they will develop a sense of shame and a sense of participation.”<sup>34</sup> Rather than a reliance on laws and punishment, which

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30 Gold, Guthrie and Wank 2002, p 12

31 Yang 1994, pp 208-9

32 Ibid. p 13

33 Liu 2003

34 Leys p. 6

are deemed inferior, instead it is important to govern them by virtuous men, and the good example of those in position of authority.<sup>35</sup>

However, while these historical aspects are considered to be a shaping influence, the more recent social constructions of the Mao era held an equal or even greater importance in the shaping of the current Chinese economy in general, and *guanxi* in particular. Those who subscribe to the Institutional Turn theory suggest that *guanxi* is less fundamentally or culturally Chinese, but rather the product of a particular set of historical circumstances, revolving around Chinese society as shaped by Maoist doctrine and policies, much the same as the Russian relationship network *Blat*.<sup>36</sup> Gold, Guthrie and Wank cite in particular the work of Andrew Walder (1986), which argues that “the use of *guanxi* in the form of patron-client relations within the work unit (*danwei*) is a response to the situation where powerful officials controlled access to scarce, rationed necessities. . . .”<sup>37</sup> They conclude that “(t)he central notion for all of these scholars is that there are specific structural and institutional conditions that have given rise to the reliance on *guanxi* to accomplish tasks in China's transforming economy, and this phenomenon has little if anything to do with Chinese culture or Chinese activity per se.”<sup>38</sup>

The cultural perspective and the Institutional Turn theory lead to separate views or preconceptions regarding the continued importance of *guanxi* in reform-era China, and to many different conclusions and debate in the scholarship on the subject, as will be outlined in the following section.

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35 Liu 2003

36 Gold, Guthrie and Wank 2002, p 14

37 Ibid.

38 Ibid. p 15

### Scholarship and Debate in the Literature Regarding Cause and Importance of *Guanxi*

Research into the *guanxi* phenomenon, both anthropological and business, is well established and goes back a long way, to the early days of the reform, and in some cases before. Among those given some of the most positive mention is Fried's 1953 study on a village in Anhui province, with the focus on the necessary component of *ganqing* within relationships, describing it as a “quality of relationship” which “varies in warmth and intensity.”<sup>39</sup> Other scholars have tackled the subject and its inaccessibility for Westerners, such as Geertz in 1973, and Andrew Kipnis in 1997, who suggests that “in *guanxi*, feelings and instrumentality are a totality.”<sup>40</sup> A very important example of scholarship into the cultural foundation of *guanxi* is Mayfair Yang's 1994 book *Gifts, Favors, and Banquets: The Art of Social Relationships in China*, held to be one of the seminal writings on the subject. It is noted, however, that the early days of the reform influenced scholarship on the subject into focusing largely on its negatives. Foreign perspectives first considered the *guanxi* phenomenon “during the early period of opening up, when China had few laws or regulations governing the headlong, often ill-prepared onslaught of foreign trade and investment.”<sup>41</sup> During this chaotic period of time, the instrumental function of *guanxi* was at the forefront, and any affective or sentimental quality was pushed back.

It is, though, also the observation of some in the field that many of these older works may represent a self-fulfilling prophesy of sorts. Gold, Guthrie and Wank write that “(s)ome scholarly studies of inter-firm activity first assumed the importance of *guanxi* in doing business in China, and then, tautologically, set out to prove how important it was, urging foreign investors

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39 Fried 1953, p 103

40 Kipnis 1997, p 23

41 Gold, Guthrie and Wank 2002, p 8

to master the skill, such as Gomez Arias in 1998, Luo and Chen in 1997, and Tung and Worm in 1997.<sup>42</sup> (12) Regardless, the establishment, cultivation and maintenance of *guanxi* has been considered a virtual necessity since the opening of China to foreign trade, and no “how to book or seminar on doing business in China fails to cover the necessity and tactics for establishing, cultivating, and making use of *guanxi*.”<sup>43</sup>

*Guanxi* has implications in hiring processes in business with American or Western firms because if allowed it can offset selection as based on merit and qualifications for the position. As an informal mechanism it is outside the codified processes the firm wishes to establish. With formalized hiring processes in place, however, its negative effects can be mitigated.

In general, when it is examined, scholarship on *guanxi* tends to rely on one or both of two assumptions: that 1) it is a cultural component of Chinese lifestyle and society, in particular collectivism and power distance as described by Hofstede and the GLOBE study,<sup>44</sup> 2) it has been shaped by and is a response to the lack of solid rule of law and other institutions that have historically not existed within China.<sup>45</sup> However, in more recent times these two bases of thought have come under question, and a split within the academic community has arisen about whether *guanxi* is uniquely Chinese, whether it is responding in some way to reform, and even whether its usage is increasing or decreasing in the modern era.

There is a body of literature that claims there are many examples of *guanxi* practices still in use within reform China. In the case of obtaining jobs and hiring practices, Yanjie Bian's work on job-searching within the country yielded some confirmation for usage of *guanxi* ties in

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42 Ibid. p 12

43 Ibid.

44 Dunning and Kim 2007

45 Gold, Guthrie and Wank 2002, pp 12-13

obtaining employment.<sup>46</sup> According to his research, *guanxi* played a great part in filling institutional holes in the labor market, and in helping the flow of information from employers to potential employees. His study of three groups of students concluded that almost all of them had both found and secured jobs using their *guanxi* connections.<sup>47</sup> (129) His interviewees confirmed that for the most part, usage of social connections was the first channel that they employed in looking for work, as other channels, such as employment agencies and job advertisements were not as useful, reliable, or trustworthy.<sup>48</sup> From the applicant's point of view, the usage of *guanxi* mitigates uncertainty in the job being applied for, and for the employer it mitigates uncertainty in the qualities of the applicant under review.

The other side of this debate, spearheaded by Douglas Guthrie, argues much more strongly for the second of those assumptions: that *guanxi* is a result of a specific social context within China, the same as its Russian analog *blat*.<sup>49</sup> These societies “share. . . shortage economies with weak legal infrastructures, so networking and trust become fundamental parts of economic transactions.”<sup>50</sup> Theorists of this type predict that as the reform takes root within China, *guanxi* will, indeed already has, become less important and less omni-present as a part of business within the country. This viewpoint clashes with the body of literature that sees a great importance attached to *guanxi* in the reform period, such as the work of Yanjie Bian 1999, Blau, Ruan and Ardelt 1991, Gold 1985 and others.

The institutional turn viewpoint has some evidence to support it. Guthrie and others who have interviewed Chinese businessmen about this subject (Keister, Kipnis, Hanser, Guthrie) have

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46 Bian 2002

47 Ibid. p 129

48 Ibid. p 130

49 Gold, Guthrie, and Wank 2002 p 13

50 Ibid. p 14

been generally consistent in their discovery that as legal and stable political systems have developed the usage of *guanxi* practice or *guanxixue* is increasingly being viewed as a negative option, which is preferably not to be used to any great extent. There are a few reasons, not the least of which is the viewpoint that it is dangerous to employ, with its prevailing perception as being corrupt and anti-competitive.<sup>51</sup>

But perhaps more than the dangers and legal risks associated, a greater problem seen with reliance on *guanxixue* is that it is inefficient, and based on factors other than merit in its application.<sup>52</sup> Managers and executives point to the time needed to create and nurture influential relationships, which may or may not pay out any significant dividends in the future, and which require an open-ended offer of reciprocation for perpetuity. Yi-min Lin argues that this system was used during the late Mao period and early reform, despite its inefficiencies, because of controls put on the society by Maoist policies and the command economy. Constraints on movement and occupation during this period, such as the *Hukou* system of living placement and registration, the *danwei* (work unit) system of job-allocation meant that citizens had few available choices, and reliance on *guanxi* networks was one of the only methods of pursuing self-interest.<sup>53</sup> It also had the result of a strong localized culture. Limited mobility led to strong local ties, and little ability to explore options outside of one's local network. With reform and a shift to a market rather than command economy, accompanied by the lessening and phasing out of both the *hukou* and *danwei* systems, there are many more available choices and substitutions for personal advantage beyond the strength of one's network.<sup>54</sup> The availability of substitutes,

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51 Wank 2002, p 105

52 Lin 2002, p 67 also Wank 2002 p. 105 and Anderson and Lee 2005

53 Lin 2002, pp 62-63

54 Ibid. pp 64-65

combined with an overcrowded field of favor-seekers, make it less likely in particular that those in positions of power to grant favors will feel the need to do so.<sup>55</sup>

Andrew Kipnis and Amy Hanser's work have similar conclusions. Kipnis makes much the same point when he discusses *ganqing* avoidance, or the desire to avoid the need for affection or sentiment within an economic relationship.<sup>56</sup> Inefficiency in the cultivation of *guanxi* ties and the lack of potential benefit in the payout of such a relationship lead many to seek other methods to create trust in the transaction, such as a recognized contract of terms for the exchange.<sup>57</sup> Amy Hanser's work on job-searches also offers a contradictory view to Bian's suggestion of the increasing or continuing importance of *guanxi*.<sup>58</sup> While she is careful to say that *guanxi* is still a part of job-hunting in China, her data still suggests that as an alternative it has fallen into some disfavor and out of regular or primary usage.<sup>59</sup> As the economy develops and matures, the required skills for jobs become more complex, making positions difficult to fill simply through reliance on *guanxi* networks to locate acceptable employees.<sup>60</sup> Employers find that the potential labor-pool available through relationship networks is often too small, and frequently too local and interconnected, to be able to fulfill its function.

Disagreement in research findings can often be categorized under two headings. The first is in the blurring of the definition of *guanxi* itself. As mentioned earlier, it is similar to but considered to be distinct from social networking. Guthrie argues that in many cases within the literature, the two concepts have become too similar in perception, and not enough care is taken to distinguish the uniquely Chinese *guanxi* from regular social relations and social networks that

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55 Ibid. pp 70-71

56 Kipnis 2002, p 28

57 Ibid, p 29

58 Hanser 2002

59 Ibid, p 138

60 Ibid, p 152

exist in business and society everywhere across the globe, and that are in no way unique to China.<sup>61</sup>

Lisa Keister's work on *guanxi* in business groups goes far to confirm this perspective. Although she admits to beginning with the assumption that *guanxi*, per previous research, would be quite prevalent, she found that two of her research questions – ‘Do managers manufacture *guanxi* ties for economic gain?, and do managers manufacture *guanxi* ties to circumvent laws and regulations?’ -- were overwhelmingly answered negatively in interviews with managers within China,<sup>62</sup> going on to add that the “managers clearly distinguished between *guanxi* (the social relations) and *guanxi* practices (cultivating social relations for strategic purposes). . . . the managers in the business groups distinguished between developing good business relations (*gaohao shangye guanxi*) and using social ties to take care of matters (*kao guanxi xueban shouxu*).<sup>63</sup> She reports that the managers used words “such as dangerous and corrupt to describe the practice and expressed their distaste not only for the practice by also for those who continued to engage in it.”<sup>64</sup>

In this light, the research of Bian and others appear somewhat flawed. The work on job searches does not clearly distinguish between simply using connections for information searches and the manufacture of indebtedness and obligation that is nominally a key component for *guanxi* practice or *guanxixue*.<sup>65</sup> Guthrie suggests that although Bian starts with the proper definitional foundation for the research conducted, the conclusions that are drawn do not effectively utilize the same definitional rigor. Although Guthrie tends to target Bian's work

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61 Guthrie 2002, pp 29-40

62 Keister 2002, pp 83, 92)

63 Ibid. pp 82-83

64 Ibid.

65 Guthrie 2002, p 47

specifically, he mentions that this definitional blurring is a common flaw in many works on the subject, including Mayfair Yang's 1994 work.<sup>66</sup>

Another reason given for the discrepancy between the two positions is what Guthrie refers to as structural positioning, or somebody's placement within a company or in an overall social hierarchy. Again, using Bian's job-searching as an example, as well as research conducted by David Wank 1998 and You-tien Hsing in 1998 (whose methodology he looks on more favorably),<sup>67</sup> he suggests that even though people are claiming to use *guanxi* in obtaining employment, all that they can say is that they attempted to use *guanxi* and received employment, but not that their attempted use of *guanxi* was actually the reason that they received employment.<sup>68</sup> The motivations of the employer may have been due to the applicant's skill-set or some other factors, and not necessarily their use of connections. Guthrie believes that, like the definitional blurring, this is a systemic problem in the study on the subject, an exaggeration of the prevalence of *guanxi* interactions though a one-sided focus on the favor-seeker, rather than also studying the favor-giver. His own research focused on samples of decision-makers in firms, and confirms his own analysis of the decreasing importance of *guanxi* connections and creation in job-searching in particular, and the economy in general.<sup>69</sup> These practices, according to Guthrie, are losing significance as firms evolve and craft more formal, codified hiring profiles, in the same way that the overall economy of China is moving towards a rational-legal structure and away from one centralized around *guanxi* practice.<sup>70</sup>

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66 Ibid. p 39

67 Ibid. p 32

68 Ibid. p 42

69 Ibid. p 50-51

70 Ibid. pp 52-53

An offshoot of the structural positioning argument concerns the relative position of the firm under question to the State. Guthrie mentions this as well, contrasting Wank and Hsing's research on largely private markets to his own which examines large companies much closer to the State apparatus.<sup>71</sup> He concedes that smaller firms or private entrepreneurs will have to rely more on *guanxi* connections to gain entry, promote themselves, and for other means associated with their business, but suggests that the larger, more established firms do not need to worry as much about cultivating ties.

David Wank, in response, suggests that a *guanxi* is not necessarily becoming less important for the larger firms, or highly-placed decision makers, but because their networks are already established and effective in their own rights, or because they can gain advantages by other means.<sup>72</sup> He writes: "It reaffirms the classic insight from community power studies that elites at the top of governing structures exercise power in ways that enhance private advantage but are not blatantly corrupt. Instead, personal familiarity and value convergence facilitates coordination among elites to achieve their preferences (i.e. Hunter 1953). This observations also reaffirms in a roundabout way Mayfair Yang's characterization of *guanxi* practice as a 'weapon of the weak' (1993, p. 26) deployed primarily by those far from the seats of power."<sup>73</sup>

In other words, *guanxi* serves far greater purpose outside of the large firms, and is primarily the tool of new entrants and entrepreneurs. For these firms, the relationships they form, particularly with officials, can be very important at the onset of their operations.<sup>74</sup> For instance, relationships with local officials are still utilized to obtain permits, and avoid excessive fines or fees from the state. However, it is at the same time acknowledged that it is become less

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71 Ibid.

72 Wank 2002, p 103

73 Ibid.

74 Guthrie 2002, p 54 also Wank 2002, p 105

appealing, and receiving stricter scrutiny from higher-level officials, for the same reasons: inefficiency and low effectiveness.<sup>75</sup>

It is tempting to suggest that *guanxi* as a weapon of the weak can refer not just to firms within an economy but also to employees within a single firm. Those with lower skills and positions within a firm could be expected to look upon *guanxi* and *guanxixue* with a more favorable eye due to their lack of associated skills, experience, and established relational capital. Those at the opposite end of the spectrum, who can prosper on the weight of their accumulated skills, could be expected to look on the usage of *guanxi* as less favorable, or necessary, as well.

Wank goes further to say that the Institutional Turn argument has a few primary flaws beyond this as well. A significant issue is that it assumes one of two directions, either towards a *guanxi* or relationship-oriented social structure, or alternatively a rational-legal structure,<sup>76</sup> which Wank says oversimplifies the ways in which society works. It is not possible to state authoritatively that a decrease in the reliance of the traditional form of *guanxi* and indebtedness is simply a move towards reliance on a rational-legal system.<sup>77</sup> Although Wank too says that the usage of the traditional type of *guanxixue* is decreasing with reforms, he suggests that rather than being replaced by legal contracts etc. it is instead simply altering form, towards what he describes as a business-state clientèle relationship. There is still the case that the state organs, local governing agencies in particular, and business work together in ways that achieve mutual self-benefit, but do not confirm to the standard definitions of a market transaction, and as such are not accounted for in the Institutional turn argument.<sup>78</sup>

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75 Wank 2002, p 106

76 Ibid., p 99

77 Ibid., p 103

78 Ibid. p 98

For instance, rather than simply creating and cultivating *guanxi* with government officials in order to secure permits or escape official notice, firms will seek out higher-placed members of the party to provide reputation or face to their company.<sup>79</sup> This sponsorship can be comparable to an athlete or movie star who provides brand or name recognition. It provides reputational capital to a firm, implying trust in the company and the product in the eyes of public.<sup>80</sup> Rather than being gift or exchange-based, this reputational capital can be earned in a variety of ways, such as by hiring party officials or their family members, or by giving a state-owned enterprise a stake in the company's operations. Start-up companies or entrepreneurs can use their relationships with officials as status and differentiation, in a society that has less experience with the concept of corporate reputation, but a long history with the concept of personal reputation.<sup>81</sup> This is often viewed as a suitable alternative to advertising in the early life of a company. It is generally stressed, however, that the effects of quality and reliability of the company's operations will quickly outweigh any benefit accrued from this relationship capital.

Dunning and Kim's 2007 study attempted to test both the cultural component of *guanxi* and the Institutional Turn argument of compensation for a lack in formal institutions within the country. Their results suggest that there is a cultural component to the perception of *guanxi* within Chinese society, in relation to power distance and collectivism. They conclude that this is possibly due to the social conditioning of Confucianism still prevalent in Chinese society. The results do not suggest that *guanxi* forms an alternative to formal institutions. This does not necessarily disprove the Institutional Turn argument, but it does lend credence to Wank's suggestion that the practice is evolving in the current day rather than subsiding -- working in compliment with rather than against the Chinese institutions. Pittman Porter in his study on

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79 Ibid. p 106 also Fan 2007, as well as Zou and Gao 2007

80 Ibid.

81 Ibid.

*guanxi* and the Chinese legal system says that it is primarily an aversion to the damage of reputation and the impact on an individual's *guanxi* network that bolsters the existing PRC legal system, and helps it regulate individual behavior. It is Porter's viewpoint that “(w)hile the role of *guanxi* can be limited by formal law and legal processes, the formal legal system is incomplete and would have little effect at all were it not for informal mediating mechanisms such as *guanxi* relationships.”<sup>82</sup>

This may suggest that China is at a crossroads in its development. There is some validity and support for the Institutional Turn argument; however, it is safe to say that while full reform may still reduce the importance of the relationships and the practice of *guanxi*, the country has not achieved that level of reform yet. It is clear that despite what social conditioning the Confucian dynasties and the Maoist policies may have placed on the Chinese people, they are open to and receptive of substitutions when they are effective. New workers for some time have grown up entirely in the reform era, and Western capitalist ideas on political and economic matters have been in direct competition with Confucian and Communist ideas for their attention. It is not so simple a matter, clearly, as to pick one or another of them, as Anderson and Lee conclude,<sup>83</sup> but their decisions will likely have great influence on how the matter unfolds in the future.

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82 Porter 2002, p 195

83 Anderson and Lee 2005

## Conceptual Framework, Theory, and Hypotheses

The theoretical foundation of this work operates on three basic assumptions.

1. *With culture being transmitted and informal values, change or expansions in culture can lead to a change in those values as held by the individual within the culture or society.* In other words, the values that individuals hold are influenced by the culture in which they live, and the social values that are transmitted by that larger culture to them as individuals. Given this, as societies evolve, change, or reform, there are new sets of values transmitted throughout, in contradiction or compliance with the existing cultural values, that give the individuals a broader spectrum of values to choose from or be influenced by, and this can lead to changes in the opinions of these individuals.
2. *With institutions as formalized rules governing acceptable individual behaviors within a society, reflecting both from and upon cultural values, change or expansion in institutions within a society can lead to changes in culture, and thus in the values of individuals within that society.* Institutions are created to broadcast certain values or confine individual behavior within those accepted values. If there are no changes in existing institutions, there is less chance that either culture or individual values will undergo change or evolution. However, if there are large changes in the institutional setting, such as through the change or evolution of existing institutions, the creation of new institutions, or the inclusion of institutions from other cultures and societies, then these additions and changes can lead to a wider set of cultural values, and this expansion can lead to changes in the values held by individuals within that culture or society.
3. *If institutions and culture within a society are changing, evolving, or expanding, and if some of these expanded values are in contradiction, then individuals make decisions*

*between them based on familiarity, self-interest, and the perceived effectiveness of the values under consideration.* As institutions and culture evolve, particularly in the case of greater contact with and influence from sources outside the society, the chance of contradictions between accepted culture and institutions increase. In the event of facing these contradictions or opposing values or rules, the individual must ultimately choose between them on which one to follow more closely. When making that choice, they will consider a few factors. Their familiarity with each value or rule, and how accustomed they are to what it is and means for them; their self-interest, and how each value or rule would benefit them in the short and long run; the perceived effectiveness of the value or rule, or how well it appears to work in providing a blueprint for behavior that has a benefit at both the individual and societal levels. In this case, the assumption (inherent in Western reform concerning *guanxi* and *guanxixue*, is that Western merit-based hiring and the usage of codified, legal processes will be looked on as more effective, and thus looked upon more favorably.

In this case, we have the traditional culture that stresses the power of man, and the informal values and rules of relationships, or *guanxi*, in obtaining positions from prospective employers, in contradiction with the Western institutions of formalized hiring practices within their multinational firms that do not give weight to relationships or social capital in making decisions. Given this contradiction, the individuals involved have the option of choosing between the two the one that seems the best fit for their personal values. If the Western practice is perceived to be effective, it may override the familiarity of traditional values, particularly if that familiarity is decreasing as the society as a whole evolves during the reform.

## Conceptual Definitions

I define culture as the informal transmission of values and institutions as formalized rules. In this case, the values under consideration are merit-based selection, and relationship-based selection. Merit-based selection means that one is hired to fill a position because they have a core skill-set, experience, or education that matches with the formalized requirements for the position to be filled. Relationship-based selection means that one is hired to fill a position because they have the appropriate contacts or social network that provides them the means to fill the position. This distinction, however, is practically considerable only when these are in contradiction. If an individual has both the necessary skills and the greater social network, it would be much less possible to measure the effects of either, and much less likely to require that individual to choose between the two.

I define institutions as largely formalized rules governing behaviors. In this case, the institutions of concern are Western hiring practices, the Chinese relationship network, and the tradition of legal structure in the country, regarding relationships and merit. Western hiring practices are the formalized rules used in selection of employees, by matching skills and merit to better positions within a firm. The Chinese tradition has familiar institutions that operate on merit and on relationships. They have the history of the Examination System, and a strong tradition of meritocracy in the Confucian philosophy. They also have the strong tradition of rule of man, relationship capital, and a recent history of focusing on ideology or connection more than merit or expertise, such as during the Maoist era with the ideal of “better red than expert.” *Guanxi* itself has institutional traits while being an informal framework, with unwritten rules regarding affect and reciprocity.

Familiarity is defined as the time and pervasiveness of exposure to cultural values or institutional rules. As an individual spends more time examining or encountering these values or rules, they will seem less strange or foreign, and the individual will become more accustomed to them. Self-interest is defined as necessity of survival or advancement, such as, in this case, finding a job. Finally, effectiveness is defined as the ability of values or rules to meet the needs of the society and the individuals within it.

### **Independent and Dependent Variables**

The primary independent variables under consideration regard the conceptual definition of familiarity, with regard to exposure to formalized, merit-based hiring practices within the targeted Western multinational, as well as exposure to the relationship-based practices of traditional and more modern Chinese society, which has been undergoing perceptual change during the period of reform. The traits of Power Distance and Collectivism are also used as independent variables, and are defined by six survey questions regarding them. The first set of Dependent Variables consist the three encompassing factors of *guanxi* as identified by Dunning and Kim (Social Networks, Personal Relationships, and Relational Capital) and are constructed by individual responses to the survey questions presented.

There are two things are not being considered in this method and analysis. First, provided that Western rules in hiring are mandatory in pursuing Western employment, it is not productive to consider self-interest in this analysis, due to the superficial versus actual acceptance of these practices as brought up in the introduction. Whether or not employees play by the rules of the game in pursuing employment does not ultimately reflect their actual acceptance of these rules, and due to the lack of ability to choose between them, their actions in

this matter do not provide the ability for further insight into their opinions and intentions. Second, the attention paid by Dunning and Kim to the state of institutional and formalized processes is not being considered. The reason for this is that the consensus of research, no matter the side of the debate being taken, is that the legal institutions in China have not fully developed to necessitate the removal of *guanxi* or social connections from the overall picture. Whether it is argued that they work with the developing institutions or fill the gaps where the institutions have not developed fully, it is still the opinion that those institutions have not developed enough.

### **Operational Definitions and Hypotheses**

Operational definitions for these variables are contained in the survey administered to the workers in the American multinational operating in Shanghai. Definitions for familiarity are based in responses to age of respondents and length of time employed by the target company. Definitions of the seven traits of *guanxi* are the subject of the first section of the survey. Per Dunning and Kim's work, the attempt will be made to fit them into the larger aspects of Social Networks, Personal Relationships, and Relational Capital. Definitions of the key aspects of *guanxi* under consideration, relationship-based hiring and the necessity of reciprocity, are the subject of the vignettes in the second section of the survey.

The first part of the survey provides a comparison with Dunning and Kim, with the addition of independent variables regarding age and length of employment. With these additional variables, the scores and factors provided by Dunning and Kim can be compared and evaluated for any similarities or differences between this group and the response group of the

original survey. In addition, the different age and employment groupings will be judged against each other to find evidence of differences amongst age of respondents.

The second section uses the King Vignettes to isolate the specific practices of *guanxi* as it is defined, and to evaluate their fairness or effectiveness. The vignette format was used because, subjects can have perceptions “out of line with empirical reality,”<sup>84</sup> and “when applied correctly, the technique can greatly increase the comparability in survey responses.”<sup>85</sup> In addition, it is more likely (though not certain) to lead to more candid and honest responses. Given the sensitivity of *guanxi* practice in Chinese society and the potential stigma attached to it, as well as the potential fear of going against the stated values and rules of the target company, it was deemed better to provide the vignette format to ease any potential tension and facilitate honest responses.

The vignettes isolate *guanxi* practice with regard to the usage of advantageous connections versus purely meritocratic selection, in a sliding scale from great skill disparity to even skill comparisons, in the first three questions. The final two questions isolate the necessity of reciprocation in using relationships to gain employment. From the above factor questions and these vignettes we can restate the primary hypotheses.

*Hypothesis 1: Due to developmental changes, Chinese of varying age will have different values. As age decreases, the individual's favorability towards guanxi and its practices will decrease.*

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<sup>84</sup> King et al 2004, p 1

<sup>85</sup> Hopkins and King 2010, p 2

*Hypothesis 2: Due to exposure to company culture and business practices, as Length of Employment increases, the individual's favorability towards guanxi and its practices will decrease.*

The second hypothesis goes back to Wank's theory on *guanxi* being a tool of the weak. As one's structural position within a company increases, and one's personal capital of skills and existing networks becomes greater, it becomes less necessary to rely on the cultivation of ties and contacts in order to get favorable advantages. In other words, the lower-positioned, less experienced workers may have greater incentive towards utilizing *guanxi* for benefit, and so would have a more favorable opinion towards its traits and practices.

The survey also provides respondents an opportunity to give open-ended and non-scripted definitions for social networks and social connections, in an attempt to isolate patterns of opinions within responses, which may support current literature and the conclusions to the hypotheses listed above.

Following is a breakdown of the survey questions in English and in Chinese. The demographic questions are listed first. Next, the set of *guanxi* questions will be grouped by factors for reference, according to Dunning and Kim's factor analysis. The particular *guanxi* trait that they are measuring is listed before the question. The vignettes will follow that breakdown.

## **Demographic Questions**

First question: What is your age group? Under 20, 20-25, 25-30, 30-35, over 35

问题一：请问您属于哪个年龄段？小于 20，20-25，25-30，30-35，大于 35 岁

Second question: Are you male or female?

问题二：请问您的性别？

Third question: Which Province is your family from?

问题三：请问您的家乡在哪个省？

Fourth question: How long have you been an employee for (this company)?

问题四：请问您在 Boeing 公司工作多久了？

## Guanxi Traits

### Social Networks

**Reciprocal** -- In my network of contacts, people depend on one another.

在我的社交圈子中，大家互相照顾 (Question 4)

**Transferable** -- My network of contacts does not consist of only who I know but also includes those that my contacts know.

我的社交圈子不光包括我认识的人，也包括我的熟人认识的人 (Question 5)

**Transferable** -- I can make use of my contacts' contacts as long as I have a good relationship with my contacts.

只要我和我的熟人维持好关系，我可以求助于我的熟人的熟人。(Question 6)

**Transferable** -- My limited contacts do not matter, for my contacts are able to introduce me to their network of contacts.

我的熟人少不是大问题，因为我的熟人可以把他们的社交圈子里的人介绍给我 (Question 7)

### Personal Relationships

| **Reciprocity** -- When someone helps me, I will want to repay it by all means.

如果我得到别人的帮助，我将尽力回报 (Question 3)

**Personal** -- A personal relationship with others is part and parcel of daily life.

个人关系是日常生活的一部分 (Question 8)

**Long Term** -- People should help one another at all times; you never know when you might need their help.

人们总是应该互相帮助；你不知道什么时候你需要别人的帮助 (Question 9)

**Intangible** -- A personal connection is developed and reinforced through personal care and commitment.

人与人之间的关系在人与人相互间的关心和忠诚中得到发展和加强 (Question 10)

### **Relational Capital**

**Utilitarian** -- It is fair that people can gain favors/benefits by depending on their network of contacts.

从社交圈子中获得特殊的照顾/利益是公平的 (Question 1)

**Utilitarian** -- It is natural that I give favors to and receive favors from my network of contacts.

从社交圈子中得到和给与照顾是自然的 (Question 2)

### **Cultural Score – Power Distance (Questions 11-13)**

It is natural that there exists inequality (in terms of education, income, status) among people.

人们在教育，收入，地位上的不平等是自然的

Less powerful people should be dependent on the more powerful.

权力小的人应该依赖于权力大的人

Inequality is necessary for society to function smoothly.

不平等是社会正常运作需要的

## Cultural Score – Collectivism (Questions 14-16)

It is fair that group interests prevail over individual interests.

集体利益大于个人利益是公平的

I put group harmony above my own opinion.

集体的和谐重于个人的意见

I feel comfortable in a group.

我习惯于属于一个集体

### Vignettes

**Strong Relationship Effect** John is significantly more qualified than James, but James has a connection in the company that gives him a reference, so James gets the job.

约翰比詹姆斯远远胜任这个职位，但因为公司里有人推荐詹姆斯，所以他得到了这个职位

**Semi-strong Relationship Effect** John is slightly more qualified than James, but James has a connection in the company that gives him a reference, so James gets the job.

约翰比詹姆斯强一点点，但因为公司里有人推荐詹姆斯，所以他得到了这个职位

**Equivalent Relationship Effect** John and James have equal qualifications, but James has a connection in the company that gives him a reference, so James gets the job.

约翰和詹姆斯同样合格，但因为公司里有人推荐詹姆斯，所以他得到了这个职位

**Reciprocal Save Face** Bill helps get James a job, but James only works for a few months and then quits unexpectedly for a position in another company. This reflects negatively on Bill within the company, since he provided the reference.

比尔帮助詹姆斯找到一个工作。但詹姆斯只工作了几个月后就突然跳槽了。这给比尔带来坏的影响因为是他推荐的詹姆斯。

**Reciprocal Lose Face** Bill helps James get a job in his company. James is more likely to stay, since leaving will cause Bill to lose face in the company, since he provided a reference.

比尔帮助詹姆斯在他公司找到一个工作。因为跳槽会使比尔没面子，所以詹姆斯更可能留在这公司。

### Open Ended Questions

What is your definition of social networks?

您如何定义社会圈子？

What is your definition of a social connection?  
您如何定义社会关系？

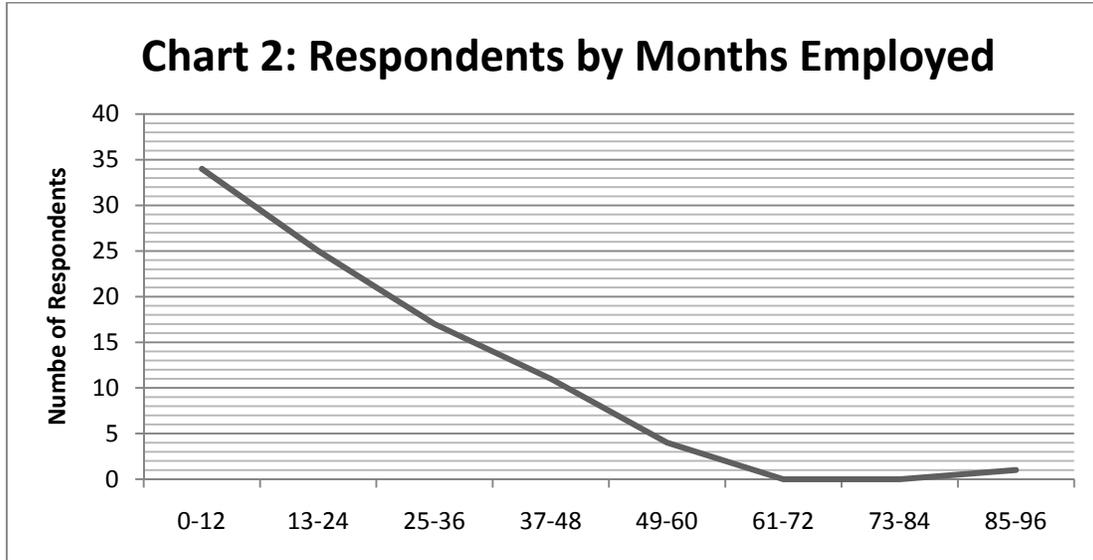
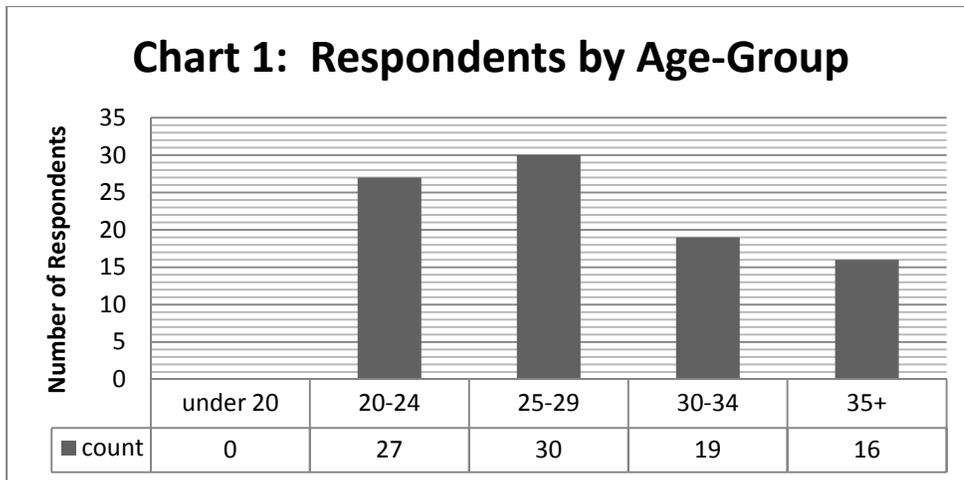
## Data Collection and Application

### Demographics

Survey data was collected from a Western multinational firm, in the avionics industry, that has a maintenance and repair facility located in Shanghai, China. The facility became operational in 2008, but was established and staffed several years before that. The company was selected, fittingly enough, by the utilization of *guanxi* and relational capital accumulated from a consulting project in 2008, as well as for the promise of a statistically significant and relatively young selection of employees to obtain responses from. While the ultimate desire was to distribute the survey to several firms of different management type and structural position, constraints on capital, of both the relational and financial varieties, made this prohibitive. Nonetheless, the company provided a significant sample that can be used in further research as a basis for comparison.

There were a total of 92 respondents. Of these 92 individuals, 29.3% were of the age group 20 to 25, 32.6% were of the age group 25 to 30, 20.7% were of the age group 30-35, and 17.4% were of the age group 35 and older. 79.1% were males, and 20.9% were females. 37% had been employed with the company for less than a year, 28.1% had been employed from one to two years, 18.5% had been employed with the company from two to three years, and 17.4% had been employed for over three years. Longest length of employment was seven years. The range of demographic information by age and length of employment are given in the charts

below. After examination of the data, the variables of sex and familiar province were rejected as they provided no significant observable effect on the dependent variables listed. The demographic information on age and employment is presented in graph form below in Charts 1 and 2.



## Descriptive Statistics

Descriptive statistics for the 10 *guanxi* questions, 6 cultural score questions, and 5 vignettes are summarized in Table 1 below. Questions 1 through 16 are based on a 1 to 7 scale,

with 1 being complete disagreement and 7 being complete agreement. The last five questions cover the vignettes, and are scored from 1 to 5, 1 being completely unfair and 5 being completely fair. This information is not provided in the Dunning and Kim case, so there is no ability to compare it to them, but it provides a glimpse of the viewpoint the workers sampled held towards the various components and cultural scores, as well as towards the fictitious scenarios in the vignettes.

For the *guanxi* items and cultural scores, a score under 3.5 would indicate mild to increasing disagreement as it approached zero, whereas a score over 3.5 would indicate mild to increasing agreement as it approached seven. Per the scores, then, the traits of *guanxi* that the respondents agreed with the most would be the traits of reciprocity, personal, and long term, and the least agreement would be the utilitarian and transferability aspects. It should be noted that by this metric the lowest score is still over the median of 3.5, so does not suggest true disagreement with the traits, rather only suggesting neutrality of opinion. Of the cultural scores questions Power Distance scores lower than Collectivism, with a level of disagreement apparent.

For the vignettes, a score under 2.5 would indicate a belief of unfair practice as it approaches zero, and a score over 2.5 would indicate a belief in the fairness of the practice as it approaches 5. Per the scores, it is clear that any great usage of relationships over qualifications is perceived by these workers as unfair, except potentially as a differentiator between two equally skilled candidates, as given in question 3. Any sense of obligation to the provider or referrer of a position, at least with regard to retention in that company or the job also receives scores under the median. It is possible that this indicates disapproval or disagreement with the notion that reciprocity is necessary in obtaining employment through relationships. However, given the discrepancy with the favorable scores on reciprocity as a *guanxi* trait, it is possible that

the obligation felt towards a favor-giver in the job search simply takes other forms than staying with the company in order to save the referrer's face.

**Table 1: Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
1. Utilitarian	91	1	7	<b>3.85</b>	1.468
2. Utilitarian	90	1	7	4.83	1.455
3. Reciprocal	92	2	7	<b>6.02</b>	1.213
4. Reciprocal	91	2	7	5.55	1.167
5. Transferable	91	1	7	5.05	1.537
6. Transferable	91	1	7	<b>4.08</b>	1.572
7. Transferable	92	1	7	4.33	1.556
8. Personal	91	3	7	<b>6.25</b>	1.018
9. Long term	90	2	7	<b>6.13</b>	1.182
10. Intangible	90	2	7	5.99	1.166
11. Power Distance	88	1	7	4.74	1.671
12. Power Distance	91	1	7	<b>2.98</b>	1.633
13. Power Distance	90	1	7	<b>3.73</b>	1.668
14. Collectivism	91	1	7	4.21	1.531
15. Collectivism	91	1	7	4.52	1.456
16. Collectivism	92	1	7	5.26	1.382
1. Strong Relationship	92	1	5	<b>2.37</b>	1.024
2. Semi-strong relationship	92	1	5	<b>3.26</b>	1.068
3. Equivalent relationship	92	1	5	3.82	1.099
4. Reciprocal lose face	92	1	5	<b>2.93</b>	1.146
5. Reciprocal save face	90	1	5	<b>2.94</b>	.964
Valid N (listwise)	74				

The Correlation Table is presented below. Of particular note are the strong negative correlations between Age and Collectivism, and between Collectivism and Relational Capital; as well as the strong positive correlations between Collectivism and Personal Relationships, between Power Distance and Relational Capital, and between Social Networks and Personal Relationships.

**Table 2: Correlation Matrix**

		Age	Sex	Length of Employ	Collectiv- ism	Power Distance	Personal Relations	Social Networks	Relational Capital
Age	Pearson	1							
	Sig (2 tail)								
	N	92							
Sex	Pearson	0.107	1						
	Sig (2 tail)	0.315							
	N	91	91						
Length of Employment	Pearson	0.155	0.178	1					
	Sig (2 tail)	0.139	0.091						
	N	92	91	92					
Collectivism	Pearson	<b>-0.248*</b>	-0.091	-0.091	1				
	Sig (2 tail)	<b>0.024</b>	0.419	0.419					
	N	<b>83</b>	82	82	83				
Power Distance	Pearson	-0.111	-0.034	-0.034	0.103	1			
	Sig (2 tail)	0.319	0.761	0.761	0.356				
	N	83	82	82	83	83			
Personal Relationships	Pearson	-0.043	-0.094	-0.094	<b>0.276*</b>	-0.058	1		
	Sig (2 tail)	0.699	0.398	0.398	<b>0.016</b>	0.62			
	N	84	83	83	<b>76</b>	76	84		
Social Networks	Pearson	-0.034	-0.073	-0.073	0.026	0.218	<b>0.388**</b>	1	
	Sig (2 tail)	0.699	0.515	0.515	0.824	0.059	<b>0.000</b>		
	N	84	83	83	76	76	<b>84</b>	84	
Relational Capital	Pearson	-0.148	0.06	0.06	<b>-0.307**</b>	<b>0.388**</b>	0.096	<b>0.276*</b>	1
	Sig (2 tail)	0.178	0.592	0.592	<b>0.007</b>	<b>0.001</b>	0.386	<b>0.011</b>	
	N	84	83	83	<b>76</b>	<b>76</b>	84	<b>84</b>	84

## Reliability and Factor Analysis

In order to collapse the various traits into their larger factors, the same method for reliability was used as in Dunning and Kim's survey. The Cronbach-Alpha reliability test was used for both the 10 *guanxi* items and the two Cultural Scores. The Cronbach-Alpha for the 10 *guanxi* items was given as .766, in comparison to Dunning and Kim's result of .72. However, Dunning and Kim's score was given prior the deletion of a question that was not included in this survey, and it is stated that their reliability score rose significantly. The ending score was not

provided in the study. The six Cultural Score questions were given a reliability of .562, which matches with Dunning and Kim's score of .56. Next, a factor analysis was undertaken to see if the three aspects of *guanxi* (Social Networks, Personal Relationships, and Relational Capital) could be isolated in this data sample as well. The results are in Table 2 below. The results for factor analysis reflect that in Dunning and Kim's study very closely. The three factors come through clearly, and with close to the same individual scores as in the other survey. This provides some confidence in the repeatable method of collapsing the individual questions down into their underlying, latent concepts, and suggests that the regressions taken from those factors as dependent variables are acceptable. The factor analysis for the two Cultural Traits was not provided by Dunning and Kim's study for comparison, but the six questions factor down into the two larger constructs just as significantly.

**Table 3 –Factor Analysis**

	Component		
	Personal Relations	Social Networks	Relational Capital
1. Utilitarian	-.184	.265	<b>.721</b>
2. Utilitarian	.208	.210	<b>.862</b>
3. Reciprocal	<b>.723</b>	.238	.407
4. Reciprocal	.680	<b>.682</b>	.255
5. Transferable	.354	<b>.800</b>	.167
6. Transferable	.294	<b>.663</b>	.175
7. Transferable	.202	<b>.732</b>	.293
8. Personal	<b>.859</b>	.368	.082
9. Long term	<b>.830</b>	.332	-.054
10. Intangible	<b>.765</b>	.257	-.093

Rotation Method: Promax with Kaiser Normalization.

	Component	
	1	2
11. Power Distance	.226	<b>.628</b>
12. Power Distance	.341	<b>.647</b>
13. Power Distance	.429	<b>.595</b>
14. Collectivism	<b>.732</b>	-.193
15. Collectivism	<b>.779</b>	-.468
16. Collectivism	<b>.696</b>	-.161

Extraction Method: Principal  
Component Analysis.

### Regression Analysis for Factors

Having collapsed the questions into the three factors, they were tested as dependent variables in six separate models. The first of these models used the single independent variables of Collectivism, Power Distance, Age, and Length of Employment. The next four models added in Interactive Variables created by the products of the demographic information of age with the cultural scores components: Age x Power Distance, Age x Collectivism, Employment x Power Distance, Employment x Collectivism. The last took all four single and all four Interactive Variables together. The results will be laid out below by individual Dependent Variables (i.e. factors).

### Social Networks

Social Networks had a strong positive correlation with Collectivism, which suggests that there is a strong cultural factor to this aspect of *guanxi*. On their own, neither Age nor Length of Employment had a significant effect. From the Interactive Variable analysis, however, it can be seen that although there was still no significant effect from Employment, Age had a negative

effect on both Power Distance and Collectivism as it relates to this factor. This suggests strongly that as age increases, the perception of hierarchy and group behavior with regard to Social Networks is weakened significantly. This effect from age, which suggests that lesser value is given to the cultural components by the older respondents, runs throughout the rest of the analysis, and is surprising, as it runs counter to the primary hypothesis of a decrease in importance for the younger workers in the firm.

**Table 4 – Regressions of Factor: Social Networks**

<b>Dep. Var. Social Networks</b>	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
<b>Independent Variables</b>						
Power Distance	0.169 (0.873)	2.199 (0.031)	2.254 (0.027)	2.006 (0.049)	0.969 (0.336)	2.314 (0.024)
Collectivism	1.75 (0.085)	1.765 (0.082)	0.538 (0.592)	-1.071 (0.288)	0.189 (0.851)	1.448 (0.152)
Age	-0.082 (0.935)	-0.077 (0.939)	-0.122 (0.877)	-0.205 (0.838)	-0.046 (0.963)	-0.516 (0.608)
Length of Employment	0.232 (0.817)	0.436 (0.664)	0.655 (0.514)	0.183 (0.855)	0.213 (0.832)	0.74 (0.462)
Age x Power Distance			-1.779 (0.08)			-1.894 (0.062)
Age x Collectivism		-1.781 (0.079)				-1.942 (0.056)
Employment x Power Distance					0.969 (0.336)	0.616 (0.54)
Employment x Collectivism				1.506 (0.136)		1.418 (0.161)

### **Personal Relationships**

Personal Relationships has a strong single correlation with the cultural trait of Power Distance, which suggests that this aspect as well has a strong cultural component. Same as with Social Networks, neither Age nor Length of Employment were shown to have a significant effect

on the factor. In addition, none of the Interactive models were shown to have any significant effect either, making this factor the least volatile of the three in terms of any variables:

**Table 5: Regression of Factor: Personal Relationships**

<b>Dep. Var. Personal Relationships</b>	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
<b>Independent Variables</b>						
Power Distance	2.169 (0.034)	-0.526 (0.601)	1.189 (0.239)	-0.598 (0.551)	-0.707 (0.482)	1.049 (0.298)
Collectivism	-0.696 (0.488)	1.169 (0.246)	2.544 (0.013)	0.962 (0.339)	2.29 (0.024)	1.032 (0.306)
Age	-0.072 (0.943)	-0.100 (0.921)	-0.183 (0.856)	-0.148 (0.883)	-0.188 (0.852)	-0.516 (0.608)
Length of Employment	1.180 (0.242)	1.178 (0.243)	1.458 (0.149)	1.103 (0.274)	1.001 (0.320)	1.31 (0.195)
Age x Power Distance			-1.469 (0.146)			-1.683 (0.097)
Age x Collectivism		-0.566 (0.573)				-0.564 (0.574)
Employment x Power Distance					0.401 (0.689)	0.955 (0.343)
Employment x Collectivism				0.548 (0.585)		0.499 (0.61)

### **Relational Capital**

This factor was the most volatile to the independent and interactive variables, particularly with regard to age. Since this factor encompasses the Utilitarian or self-benefit aspects of *guanxi*, or *guanxixue*, this provides some support for the premise that opinions on the practices of *guanxi* are decreasing in favorability throughout the country, as presented by many of the researchers and covered in the Literature Review section of this paper. Relational Capital had a strong negative correlation with both Age and Power Distance, but a strong positive relation with Collectivism. This suggests a few things. First, while there is a strong cultural component to

this factor, the two cultural traits of Collectivism and Power Distance play against each other, in opposite directions, rather than in tandem. Second, there is a very strong influence of age on the individual's perception of *guanxi* as it relates to self-benefit, but again it works in the exact opposite direction as anticipated by the hypothesis. As the respondents' age increases, their opinions regarding the utilization of *guanxi* for self-benefit decreases in favorability. Regarding the interactive variables, age has a significant weakening influence on the cultural trait of Collectivism. Employment also weakened the influence of Collectivism and Power Distance on this factor, marking the only place that Length of Employment, as used in this survey, had any substantial effect.

The effects of both age and employment on Relational Capital can suggest that as age and experience in business increase, the more Utilitarian aspects of *guanxi* and *guanxixue* are viewed as less favorable or necessary. While this is in direct conflict with the hypothesis given under this work, it does not necessarily disprove the basic theory underlying the paper. The results of the regressions for these factors suggest that age does have an effect, but while Length of Employment has little observable effect there are potential flaws in using employment at one recently established company as a benchmark. It is possible that Age, in this case, may represent a greater exposure to Western business and hiring practices over the duration of a career rather than at a singular job. This may offer significant support for Wank's and Yang's premise of *guanxi* as a "weapon of the weak," and that those in higher structural positions or experience levels within the firm are less likely to want or need to rely on *guanxi* and *guanxixue*.<sup>86</sup>

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<sup>86</sup> Wank 2002, p 103

**Table 6 -- Regression of Factor: Relational Capital**

<b>Dep. Var. Relational Capital</b>	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
<b>Independent Variables</b>						
Power Distance	-3.734 (0.000)	3.613 (0.001)	1.441 (0.154)	3.812 (0.000)	1.734 (0.087)	1.243 (0.218)
Collectivism	3.45 (0.001)	-0.209 (0.835)	-3.654 (0.000)	-3.963 (0.000)	-3.781 (0.000)	-0.828 (0.411)
Age	-2.714 (0.008)	-2.713 (0.008)	-2.705 (0.009)	-2.953 (0.004)	-2.651 (0.010)	-2.983 (0.004)
Length of Employment	0.427 (0.671)	0.572 (0.569)	0.551 (0.583)	0.424 (0.673)	0.409 (0.684)	0.443 (0.659)
Age x Power Distance			-0.393 (0.695)			-0.353 (0.725)
Age x Collectivism		-0.879 (0.383)				-0.883 (0.380)
Employment x Power Distance					0.216 (0.830)	0.586 (0.560)
Employment x Collectivism				1.978 (0.052)		2.022 (0.047)

### Regression Analysis for Vignettes

The analysis of the vignettes follows in this trend as well, and offers support to the theory of structural position. While Employment has no significant correlation with answers, Age has a significant negative correlation with the last four of the vignettes. There is no significant influence from either of the variables on the first vignette, which suggests, per the descriptive statistics, that hiring based on relationships over a severe disparity in merit was regarded as uniformly unfair by respondents regardless of age or length of employment. However, the next two questions (judging the fairness of hiring based on relationships in the case of mild disparity or equivalence in merit), were significantly and negatively impacted by age, as were the final two questions regarding retention, reciprocity, and saving face. This suggests that as the age of

respondents increased, they found it increasingly unfair to use *guanxi* practice in hiring, and felt less imperative to stay in the firm for the benefit of someone else. This again goes against the original hypothesis of younger generations being less driven by the notions of reciprocity and relational hiring. It may, however, be indicative again of a greater sense of establishment leading to less reliance on your network to give and receive benefits. While employment covers only their time at this job, it is possible that a longer measurement of total job experience since beginning their career would allow a more valuable measure of their viewpoints of *guanxi* benefits and practices.

**Table 7 – Regressions: Vignettes**

<b>Dependent Var.</b>	Strong Effect Relationship	Semi-Strong Effect Relationship	Equivalent Relationship	Reciprocal Lose Face	Reciprocal Save Face
<b>Independent Variable</b>					
Age	-1.106 (0.272)	-2.785 (0.007)	-2.622 (0.010)	-2.156 (0.034)	-2.399 (0.019)
Length of Employ	1.096 (0.276)	0.281 (0.779)	0.214 (0.831)	-0.192 (0.848)	1.019 (0.312)

The reliability of these measures may be called into question, due to the composition of the sample size. As mentioned in the Demographics section, the higher end of the age spectrum used in this study represented a smaller percentage of the total responses than the others. The smaller size leads to a greater chance of randomness in the results, and that should be considered when drawing conclusions.

### **Open Ended Answers**

There were a total of 43 separate responses for the open ended answers regarding personal definitions for social networks and social connections. A percentage of these responses

gave more descriptive than analytical answers to the questions. For instance, with regard to the definition of social networks, many answered by listing the people that networks were composed of. The most common responses for this were classmates, friends, family, and co-workers. For the more analytical answers, there were subtle and more direct confirmations of many of the *guanxi* traits as described in this paper. Some of the answers given will be provided below as representative samples.

**Personal** – The next most common theme in responses was regarding the personal aspects of *guanxi*. Respondents discussed social connections and networks with regard to their daily lives, and the people that were a part of those connections and interactions. Relationships were created on the basis of shared interests in goals or similar traits of personalities compared to the individual giving the response.

“Social relations include aspects of a person’s personal and professional life. In the aspect of one’s personal life, they refer to interactions and communications with others in daily life; while in the aspect of one’s professional life, they refer to communications with colleagues.”

“社交关系即包括生活层面，又包括工作层面的。生活层面是与他人待人处事，日常生活，交流沟通。工作层面则是与同事间的交流沟通。”

*20-25 year old male, employed 6 months*

**Transferability** – Several respondents discussed the ability to connect through the primary or core circle of relationships to other peripheral, connected networks. Having a solid connection with one person can lead to good connections, or good credit, with others connected to that individual, or on the periphery of your core circle.

“A social relation, just as the name implies, is one’s own social circle established based on different conditions. By making new friends through old friends, based on trust, (one can) quickly establish his own friend’s circle. In this circle, individuals have good credits with each other.”

“社交关系，顾名思义，是据不同的条件建立属于自己的社交圈子。通过朋友认识朋友的

形式，迅速建利一个自己的基于信任的朋友圈子。在这个圈子里，互相之间具有较高的诚信度。”

*20-25 year old male, employed 9 months*

**Utilitarian and Reciprocity** – After the descriptive and personal aspect responses, the next most common theme in responses discussed the ability to take advantage of others in your circle for benefit, and have them take advantage of you in return. When discussing utilitarian benefits, most of the respondents referred to them as mutual advantage, not simply self-benefit for the individual. One advantage was given as the ability to influence others, even on a short term basis. However, one respondent suggested that while some use relationships for self benefit, others are more concerned with the morals behind the relationship.

“A social circle refers to a stable, harmonious and mutually helpful relationship.”

“稳定，和谐，互相帮助。”

*25-30 year old male, employed 1 year*

“Social circles are involved in one’s work, life and friendship. (People in a social circle) can take advantage of each other and it is worthwhile to establish relationships in order to take advantage of each other. A person should be able to treat different people differently and take corresponding social approach.”

“工作，生活，友情，可以利用，值得发展以便利用相互区分，对待不同的目的，采取相应的交际方法。”

*25-30 year old male, employed 6 months.*

“Social networks are the circle of people that you will have the opportunity to influence or be influenced by on a day to day basis, no matter how brief that may be.”

*30-35 year old male, employed 1 and a half years (responded in English)*

“There are many people doing it for benefit. There are, however, also a lot of them doing it for morality.”

“有很多人为“利益”而去做这件事。也有很多人为了“义”去做这件事。”

*30-35 year old female, employed 6 months*

**Long Term** – Two respondents also mentioned how social relations require cultivation

and investment over time. In order to maintain a relationship, and receive any benefits that it might provide, it is first necessary to prove trustworthiness and value to the other persons in that relationship.

“(A social relation is) an important training source for one to practice cultivating relationships with others besides family relationship.”

“锻炼人的重要的除亲情以外的所有感情线索的来源。”

*25-30 year old female, employed 2 years*

“When one touches red, he becomes red, when one touches black, he becomes black. [Chinese proverb that means one behaves similarly as one's company.] Men's natures are always the same, while their habits can be different. (In order to maintain a good relationship with his friends,) one has to visit his friends and invite his friends regularly.”

“近朱者赤，近墨者黑，习相近，（性相远），故广而交之，往来之。”

*30-35 year old male, employed 4 years*

## Conclusions and Suggestions for Further Research

### Conclusions

The first conclusion to be drawn from this study is that Dunning and Kim's survey was successful in isolating the three factors of Social Networks, Personal Relationships, and Relational Capital from the list of survey questions, regarding the *guanxi* traits and the cultural scores. The comparability in both the overall reliability of the factor extraction and the correlation of the factors between the two separate studies suggest that these are measurable cultural components in the perception of individuals.

Testing the hypotheses:

*Hypothesis 1: Due to developmental changes, Chinese of varying age would have different values. As age decreases, the individual's favorability towards guanxi and its practices will decrease.*

This hypothesis is contradicted by the results of the survey. From the data, it appears that the younger workers regard the usage of relationships in hiring, and the obligation that can come from that, in a more positive light than the older workers. Although the data contradicts the hypothesis, it does not, however, necessarily disprove it. Considering the demographic spread with regard to age, a majority (perhaps totality) of the respondents were socialized and entered the workforce during the mid-to-later periods of reform, and so may have universally had similar views towards the business practices of a large, modern Multinational.

*Hypothesis 2: Due to exposure to company culture and business practices, as Length of Employment increases, the individual's favorability towards guanxi and its practices will decrease.*

The results of the data analysis show no significant effect. However, as mentioned, the variable of Length of Employment, while representative of time spent within this single company, does not necessarily cover the respondents' entire career paths. In light of this, a restructuring of the variable into Length of Career may yield results more in line with the original hypothesis. The data results led to the creation of the retroactive hypothesis:

*Retroactive Hypothesis: If decreased age results in greater favorability towards guanxi and its practices, this may suggest that an individual's career length or exposure to Western hiring practices has led to a more favorable view of their effectiveness.*

Being retroactive, this hypothesis is impossible to confirm with the variables tested in the survey and analysis. However, the results are suggestive of this explanation, that structural position within the firm, or increased experience with Western multinational companies, has led to a more favorable perception of Western practices, and a less favorable perception regarding the importance of *guanxi* and its application in the workplace.

The research question of this paper was whether Multinational Hiring practices and Western reforms could override traditional cultural values in terms of *guanxi* and hiring practices. While the data available from the survey is not able to fully or unquestionably answer that question, it provides enough to suggest that there is reason to suspect that it can take place. Age in particular was found to have a significant negative impact on the Utilitarian aspects of *guanxi*, which includes the usage of *guanxi* for benefit, as expressed in the factor of Relational Capital and the unfavorable answers to the 5 Vignettes. If greater age can be taken as longer experience within business operations, there can be a direct comparison between the two.

However, to suggest this more definitively would require a revision of the independent variables and a retesting of another selected firm.

### **Weaknesses in Methodology and Results**

The greatest weakness of the project and the data gathered is the relative homogeneity of the individuals surveyed. Neither the age spread nor employment length has enough of a range to truly test for significant differences. With regard to age, all of them were socialized during the reform period, and there are not many significant events that can be directly tied to variance in answers between different ages. However, the glimpse of age related significance amongst some of the variables still suggests that this is a potentially effective method for measuring change.

Employment length is not a significant variable in this case. Given that very few of the workers were employed for more than a few years, the organizational culture's effect on the individuals working in the firm could be less than it would be on someone employed for a longer length of time. On the other hand, the time working in this firm's culture is not necessarily the totality or even majority of the individuals work experience. If the employee worked for other firms before this one, they may have taken their opinions from those other sources and their opinions may have been shaped prior to employment at the target firm. This would make employment a much more difficult variable to manage in conducting further study, and may suggest that it needs to be altered or dropped altogether.

Further, it is still possible that simply being employed within an elite Western multinational is evidence of a different opinion regarding these subjects than the opinion that would be held by individuals in other structural position throughout the country and economy. Without the ability to directly compare to Dunning and Kim's samples there is no way to

ascertain with data from just one company whether the workers there scored differently than workers in another company or position might score. While the low mean of many of the descriptive statistics suggest that some of the traditional aspects of *guanxi* do not hold as much weight as they may have in the past, without another sample to compare to there is no way to tell how much difference.

### **Suggestions for Further Research**

Due to these weaknesses, further research should hinge on increasing the size and variance of the sample. There are three different directions that would provide, singly or altogether, greater comparability of the effect of age, employment, and potentially cultural differences.

First, the sample size should encompass a much greater range for age, and further study should attempt to target individuals over the age of 35 or 40. The reason for this is that people over that age range would have been born and potentially socialized prior to the reform era, and may still hold values from either the Maoist period or even some traditional values from before the Maoist period. This greater age range would provide more ability to uncover any significant effects that age has on the aspects of *guanxi* that have transferred to the newer generations, and those that have not.

Second, the survey should be administered to workers in a different company in a different structural position within the Chinese economy. If there is a difference between the workers who are hired and work at a Western MNC and workers from other places this would provide a comparison to show that difference. A State Owned Enterprise would be one potential target that could yield results, as would any domestically-owned and operated firm. As

mentioned in the earlier sections, a well-established MNC might need to rely on their connections to a lesser extent than others, so a less-established firm might also provide a suitable comparison sample.

Finally, it could be profitable to test for pure cultural differences by administering the same survey to American workers in an American firm. Given the assumed cultural differences between the two nationalities, it might be possible to measure that difference by the differences in responses to the questions on the survey. Or, potentially, a similarity in responses between the two may suggest one of two things: that *guanxi* has become more of a non-unique sense of social networking and social capital, or that the questions used in the survey are not designed properly to give the best or most accurate responses.

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