

**The enduring significance of *guanxi* for western bankers in China:  
an investigation of the role of network practices in institutional change**

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**Abstract**

There is an assumption in some neo-institutional theories of organization that China's integration into the global economy will inevitably lead to a reduction in the influence of *guanxi* on business practices (Guthrie, 1998; 2009). Drawing on in-depth qualitative interviews, the paper shows that while the network practices of some western managers do contribute to the adoption of international business norms in China, there is another group of managers who make significant adjustments to local conditions and, contrary to the assumptions of neo-institutional theory, actually engage in strategies which re-enforce some of the existing evasive practices traditionally associated with *guanxi*. This dichotomy is guided by a process of 'bricolage' where managers creatively re-interpret the norms of the local context to justify their actions. This observation tempers the proposition that the influence of *guanxi* will decrease as China moves closer to a form of rational-bureaucratic labour

market organization where ‘competition’ is assumed to trump the ‘inefficiencies’ of connections.

**Keywords**

Bricolage, Banking, *Guanxi*, Institutional change, Urban China

The involvement of western banks<sup>1</sup> in China's financial reform programme is influenced by the policy of "linking up with the international track" (*yu guoji jiegui*) which underscores the advantages for China's economy of adopting international business norms and technical standards through joint ventures and the development of strategic international networks (Wang, 2007). Some see these moves as part of a broader interest by Chinese officials in developing an economic institutional environment which is more reflective of the international business community (Guthrie, 1998; Wang, 2007) and, at a theoretical level, these adjustments raise some important questions about the nature of network building between international and domestic managers during China's economic transition. This is an important topic because many of the key debates relating to mechanisms of institutional change in China have circled around the precise nature of *guanxi* and whether or not its influence is increasing or decreasing as China moves its economy towards the more rational-bureaucratic economic systems found in advanced capitalist economies (Guthrie, 2002; Yang, 1994).

Examining the experiences of western bankers working in China offers a unique opportunity to investigate the validity of these assumptions in more detail. In 2006 the Chinese government made a number of changes to financial legislation which has meant that, in theory at least, market entry for foreign banks is now much easier to achieve than it has been in earlier decades (Podpiera 2006). From the government's perspective, western banks were allowed entry into the Chinese market to act as agents of change, both through increasing competition and through introducing new technologies and management systems, including formal rule-based governance mechanisms, (Cousins, 2007). Of course, the global financial crises which began in

2007 has certainly caused some banks who were *indirectly* involved in the market (through stockholdings in local banks) to scale back their Chinese operations (The Asian Banker, 2009). However, those who have adopted the *direct* route into the market through the establishment of their own branches ('local incorporation') continue to remain optimistic about the business opportunities open to them in the mainland (HSBC Holdings PLC, 2008).

Interestingly, however, there are reports of numerous informal obstacles to foreign branch development, such as the difficulty in achieving essential licensing support from local officials. Many report the necessity of drawing on *guanxi* in order to overcome these problems (European Chambers of Commerce, 2008). It is timely, therefore, to study the role of western bankers in China in order to unravel the variety of strategies they currently use to develop their own business networks. Analysing their actions in more detail can advance our understanding both of the perceived importance of 'guanxi' for foreign investors and the implications of their practices for the processes underlying institutional change more generally. The research presented here is, therefore, driven by two key questions: first, do international networks encourage institutional convergence and a decreasing reliance on *guanxi*? And second, to what extent do western managers adapt to what they perceive to be local norms in relation to *guanxi*? I will argue that the interaction between western and domestic managers is guided by a process of 'bricolage' where key actors creatively re-interpret existing cultural norms in such a way as to justify the use of certain kinds of relationship-building strategies in China. This leads to a subtly different outcome than might be expected if we adhered strictly to the influential neo-institutionalist

assumption that China's integration into the international economy will lead to a decline in the importance of *guanxi*.

### ***Guanxi, guanxi practice and the nature of institutional change***

In a very general sense the term *guanxi* is often used to indicate the existence of some sort of social relationship such as a friendship, classmate or a kin connection (Guthrie, 2009). However, apart from *guanxi* itself, there also exists a separate phenomena, *guanxi xue* (or *guanxi practice*) which refers to the material aspect of relationship building or the 'manufacturing of obligation and indebtedness' which can be achieved through gift and favour exchange (Guthrie, 1998; Yang, 1994). Broadly speaking, the academic study of *guanxi* and *guanxi practice* can be divided into two theoretical positions. First there are those who maintain that *guanxi* and *guanxi practice* are distinct from the forms of networking found in other societies and that they remain an essential feature of Chinese culture. This body of research takes as a foundational assumption that China is a particularistic and collectivist society (Hofstede, 2001; Inglehart and Welzel, 2005) and subsequently seeks to describe *guanxi* and *guanxi practice* in relation to other aspects of social life in China, such as sentiment (*ganqing*), human feelings (*renqing*), face (*mianzi*), and reciprocity (*bao*) (Chen and Chen, 2004; Fei, 1992; Liang, 1949; Yang, 1994; Yan, 1996). Interestingly, some scholars in this tradition tend to favour the view that the significance of *guanxi practice* in the period of economic reform actually *increased* as the stresses and strains of the transition to a market economy meant that people needed to utilise these kinds of informal connections to ensure their economic survival and prosperity. Mayfair Yang (2004), described the way *guanxi practice* was used as a way of

circumventing newly-established formal rules and regulations during the period of her fieldwork in the 1980s and early 1990s, and numerous studies throughout the 1990s and early 2000s showed the primacy of personal connections in gaining access to jobs and promotion (Bian and Ang, 1997; Bian, 2002; Hanser, 2002).

The second position consists of scholars who view *guanxi* and *guanxi* practice as largely a product of local Chinese institutions and are, therefore, subject to change as those institutions modernize (Gold et al., 2002). In economies with weak legal institutions and where key goods are in short supply, social networks (of which *guanxi* is viewed as just one variety) become central to the successful completion of economic transactions (Walder, 1986). The argument runs that as legal and economic institutions change, the reliance on *guanxi* practice will decline. A key example of this approach is the work of Doug Guthrie, who argues that a conscious attempt on the part of the Chinese government to rationalize business practices, coupled with increasing efforts to reduce the influence of informal networks in public life, means that *guanxi* practice is in decline as China develops a rational-legal system based on formal laws and procedures (Guthrie, 1998). Guthrie claims that his data (collected in the mid 1990s) shows that the use of *guanxi* practice is both increasingly ‘unnecessary and dangerous’, particularly amongst firms which are higher up the state administrative hierarchy. It is central to Guthrie’s argument that rationalization processes, competitive pressures and the nascent development of the rule of law means that Chinese firms are now less in need of *guanxi* practice to get things done. Moreover, those involved in joint ventures ‘copy’ the business practices of foreign investors which they perceive to be successful. Huang (2008) has also shown that while *guanxi* networks are still important for gaining desirable jobs in the state sector,

large non state sector corporations rely on a more standardised and transparent recruitment process that can accurately identify the most well-qualified candidates, regardless of their connections.

These debates are important not just for advancing our understanding of the relative importance of *guanxi* in China's labour market, but also have broader implications for developing our understanding of the processes and mechanisms underlying institutional change more generally. As such, it is worth considering some of the basic assumptions of existing models and outlining some additional terms which may help to advance conceptual work. It is, broadly speaking, possible to differentiate between functionalist (or rational choice theories) and path dependency (or 'varieties of capitalism') approaches to institutional change (Nee, 2005). Each position rests on different behavioural assumptions (principally the degree to which rational action is limited and shaped by context), and foregrounds different explanatory mechanisms (such as social networks and ties, state regulations, collective action, transaction-cost economising, and so on) (Nee, 2005). The fundamental premise of the functional approach is that, in a global arena, institutions tend to converge, or become similar in form, because markets create incentives for actors to replace poor institutions with more efficient ones and actors learn from the behaviour of organizations who survive in the face of competition, a process known as mimetic isomorphism (Di Maggio and Powell, 1987; North, 1990; Weingast, 2002). In other words, efficient institutions in some way or another promote *rational* behaviour and reduce transactions costs (Williamson, 1981). This is the basic premise of Guthrie's argument that the influence of *guanxi* is declining in China's urban economy (Guthrie, 1998). He argues cogently that the emerging rational-legal system and increasing competitive forces in China

makes *guanxi* practice increasingly obsolete. Huang's (2008) study of professional job seekers also showed that while *guanxi* ties might be helpful in providing information about job openings, their usefulness in job acquisition was limited to state-sector firms only. Those applying for posts in the more competitive private sector were not advantaged by their *guanxi* ties. Huang's study, like Guthrie's, demonstrates that it is possible to argue that *guanxi* networks in modern urban China now largely resemble Bourdieu's (1986) notion of 'social capital', which can be defined as 'membership of a group which provides each of its members with the backing of the collectively owned capital, a 'credential' which entitles them to credit' (p. 248). From this perspective, parallels can be drawn between the nature of business networks in China and the west by acknowledging that understanding how businesses function in any part of the world means foregrounding the concept of embeddedness (Granovetter, 1985). Not only do legal and institutional reforms encourage organisations to change their behaviour, but competitive processes in a market economy shift the emphasis such that the best services, products or people are selected on the basis of merit, regardless of the personal and political relationships of any of the individuals involved (Guthrie, 1998).

However, there are still some unanswered questions which need to be addressed in relation to quite *how* the underlying mechanisms of change work (Campbell, 2004). Essentially, path dependency models tell us more about continuity in a given context rather than change. And the rational-choice notion that actors copy what they believe to be valuable behaviours so as to improve efficiency seems to rely on an overly deterministic model of human behaviour (Crouch, 2007). John Campbell argues that one way around this problem is to focus our attention on an actor-centred form of



institutional change which examines the way in which key entrepreneurial actors, such as senior managers, generate incremental changes in an organization (Campbell, 2004). He identifies several practices which entrepreneurs use to bring about change such as, for example, the re-combination of old ideas (bricolage), or the combination of both old and new ideas (translation). Moreover, in a similar vein to conventional network research on so-called 'structural holes' (which highlights the importance of individuals who provide bridging ties between disparate groups, see Podolny and Baron (1997)), Campbell (2004) argues that actors who are connected to several diverse networks will inevitably have more expansive repertoires to draw upon and will thus have more options available to them for the creative re-combination of ideas and networking strategies. Bricolage is particularly relevant because it highlights the way in which the active re-combination of ideas means any given manager can reconcile different norms of appropriate action to suit their own purposes during a period of organisational change (Campbell, 2004).

In order to investigate these issues in more detail, this paper analyses two kinds of data, each of which is relevant to understanding both the nature of *guanxi* in 21<sup>st</sup> century urban China and the processes of bricolage used by western and domestic managers. First, there is data relating to how informants describe *guanxi* (their normative assumptions about *guanxi*); and second, there is data about what they do to develop their *guanxi* (specifically their practices in relation to *guanxi xue*). The analysis will focus on the rhetorical justifications participants use to account for the way they use *guanxi*, and, in doing, so it will unpack the variety of informal assumptions which underlie their definitions of what is or isn't legitimate behaviour in the business context in urban China.

## **Sample and methodological strategy**

### *Sample*

The total population of western banks in China is, in fact, relatively small. According to the China Financial Services Directory (Guo, 2007) in September 2007 there were 69 banks in total, with 53 from Europe, 13 from North America and three from Australia. The banks selected for the sample were either locally incorporated (offering retail and commercial banking services to Chinese customers), dedicated investment banks or banks with representative offices (who principally provide support to home-based customers doing business in China). Initially fifty of the bank managers<sup>2</sup> were approached on the basis that their bank was either Tier 1 or Tier 2 capitally-rated<sup>3</sup> and that they had been established in China for more than 12 months. Of the 50 that were approached 26 agreed to be interviewed; one from Australia, six from North America and 19 from Europe. Compared to the population the sample contains a good geographical spread, but has more banks from the Tier 1 range. Nevertheless, as the aim is not to make a statistically generalizable statement about institutional change at a macro level but to examine the specific strategies of senior managers working in local organizations, the sample is certainly heterogeneous enough to serve this purpose.

All of the participants were male and they were aged between 37 and 63. Twenty three of the participants were Caucasian and three were second-generation Chinese-American. The ethnicity of participants is worth commenting on for several reasons.

Clearly foreign banks in China, like other multi-national companies, employ influential local Chinese to grow and conduct their business and it is a common practice in non-Chinese MNCs to employ *xinhauqiao*, overseas Chinese educated in the west (Tung and Worm, 2001). However, the participants interviewed here, including the Chinese-Americans, can be considered ‘outsiders’ in that they are nationals of other countries, are not native speakers of Mandarin and have been educated and socialised in a western context. Local Chinese employees have also been interviewed as part of a larger project of which this paper is one part (Author A), but this article focuses particularly on the practices of ‘western’ actors because, as has been discussed, the way in which they seek to adapt to what they perceive to be local norms which offers us interesting insights into understanding institutional change in China.

#### *Interviewing technique and questionnaire*

It has been argued that *guanxi* and *guanxi* practice is a rather sensitive topic to investigate because it may have associations with actions which have ‘negative connotations’ (Guthrie, 1998). As such, managers may deny any knowledge of it or lie about their actions in relation to the concept. However, it is now generally established that gleaning information on sensitive topics can often be accomplished through in-depth interviewing, particularly when the topic can be nested within more general questions. Indeed, a number of scholars have argued that qualitative interviews are particularly useful for identifying the networks of influence and specific mechanisms through which institutional principles are implemented because open-questioning allows for the discovery of ‘bottom up’ ideas, which are not pre-

determined by existing theoretical frameworks (Meyer et al., 1987). The data in this study is, therefore, based on in-depth semi-structured interviews. While this technique means that questions are not necessarily conducted in the same sequential order, the following core questions were covered in each of the interviews: i) what was the informant's view on the importance of *guanxi*? ii) how did they define it? and iii) what were the practical steps and specific behaviours (such as recruitment and socializing) used to develop *guanxi*? Guthrie notes that if *guanxi* practice were such a 'deplorable' topic, then participants would not comment on it and there would be no variation in the data (Guthrie, 1998). Like Guthrie, however, my data shows a great deal of variation with participants expressing a wide range of views on both *guanxi* and *guanxi* practice which indicates that the technique has sufficient validity to answer the research aims foreground here, which are concerned with rhetorical claims about *guanxi*, as well as the specific actions (such as recruitment procedures) that may be undertaken in relation to *guanxi* practice.

### *Methodological procedure*

The interviews took place in Hong Kong, Shanghai and Beijing between October 2007 and May 2008. Managers in Hong Kong were interviewed about their experiences of banking in mainland China. Access was obtained through personal introductions and direct approach through email and letter. The interviews were conducted under conditions of anonymity and confidentiality. It is not possible to reveal the identity of the banks because, given the seniority of some of the individuals interviewed, this could lead to the identification of the participant. The interviews were recorded in 19 of the 26 interviews, however seven participants requested not to

be recorded and notes were taken during these interviews which were immediately typed up following the meeting. The data was analysed using a grounded theory approach where the emphasis is placed on concept and thematic development and an examination of the conditions and consequences which influence decision making (Strauss and Corbin, 2008). It was possible to divide the participants into groups based on emerging themes and so numbers are provided for each group in the results which follow. However, these should not be taken as an indicator of statistical generalizability but, rather, of heterogeneity in the specific sample under investigation.

## **Research Findings**

The analysis is structured around two key themes: first, participants' definitions of *guanxi* in 21<sup>st</sup> century urban China and second, the varieties of *guanxi* practices they adopted in order to achieve their business objectives, specifically in relation to gaining regulatory approval and the acquisition of banking licences. As we shall see, the first theme offers some interesting insights into the debates surrounding both the cultural and institutional forces influencing the nature of *guanxi*, and the second theme offers some new perspectives on the nature of *guanxi* practice between western managers and Chinese officials. It is in the analysis of this second theme that we see the use of bricolage, as participants piece together ideas from both domestic and international settings to create distinctive solutions which are specific to the local business challenges they face.

### *1) Definitions: Good guanxi. Bad guanxi.*

Managers began their discussion by emphasising their support for the changes which have occurred at the organizational level as part of the government's drive to reduce the influence of *guanxi* in business operations (Wilson, 2008). Over half the managers (18) framed this in terms of a desire by officials to encourage the banking system to converge on international business norms. One CEO described the situation in the following way:

In China today what we see is that there are such levels of paranoia at the top levels of government to be viewed as not being influenced by this [*guanxi*]. That in some way it hurts their national image when what they really want is to be seen as a good and reliable global citizen.

While this particular example contains an implicit assumption that there is an association between *guanxi* practice and corruption (because it 'hurts' the national image), the general tone of the argument matches Guthrie's position that as rational-legal developments continue in China then the influence of *guanxi* practice will tend to decline. Another aspect of the 'convergence' idea could be found in the numerous examples of managers drawing parallels between western social networking and Chinese *guanxi*, for example:

People say to me, 'explain to me about *guanxi*' and I say, 'well, you've got some mates haven't you? How do you use that network?' It's the same thing.

*Guanxi* exists everywhere; everybody uses *guanxi* connections, business networks, that kind of thing. There's nothing strange or unusual about that.

These remarks echo Christina Sue-Chan's and Maria Dasborough's (2006) study which compared Hong Kong and Australian managers use of friendship ties in their recruitment practices. They concluded that there was a great deal of similarity in the two networks in that each relied on friends and social connections for personnel recommendations. In Hong Kong this was referred to as *guanxi*; in Australia, Sue-Chan and Dasborough coined the term 'mateship' to describe the same processes. Not all managers emphasised the similarity with western networks however, and others drew parallels with networks in other developing countries where formal legal frameworks have yet to be fully established:

I think there's too much emphasis on the cultural mystique surrounding *guanxi* in China. I think there is a tendency to pin a cultural label on it which is a Sino-centric view often espoused by people who haven't worked in any other developing country environment. So if you talk to people in India, Indonesia, or perhaps Korea in the 80s, frankly, there's not much that distinguish that from what goes on in China.

The common theme, however, whether a comparison was made with western networks or networks in other developing countries, was that participants distanced themselves from the notion that *guanxi* was something 'essential' to Chinese culture or psychology. Indeed, the most clear explanatory theme was that *guanxi* was still necessary because there was a need for information in an environment which continued to lack transparency. As one general manager noted:

We don't have the Wall Street Journal or the Dow Jones to tell us what's going on. The way this economy works it's been developed by the government in a way to obfuscate. The way I stay on top of what's happening with regulation is through my network.

However, within this argument that *guanxi* was necessary for information-gathering purposes was a view that it must be considered a valuable, but strictly limited, resource - not the principal way in which business goals are advanced. As one CEO remarked:

*Guanxi* matters in terms of the power of information, either for defensive tactics or to propagate your goals and objectives ... The acquisition of meaningful information is different to saying *guanxi* gives you the keys to the kingdom. It's a tool to be managed so people can understand the system and progress your agenda which is different to saying I know Levin Zhu and I can get anything done in the banking system that I want ... But to say, I know Levin Zhu and here's what he's saying about the future of banking regulations, here's what he said that his dad hears from the ministry, here's what you can expect and this is how you should react, that's powerful, that's worth knowing.

From this initial analysis of *guanxi* then, a number of interesting themes emerge.

While most managers see *guanxi* as not 'culturally' Chinese (comparing it to both western and other non-Chinese networks), they do notice it as 'institutionally'

Chinese to the extent that the rational-legal system has *still* not evolved sufficiently, in



the financial sector at least, for its influence to have diminished. Beyond this initial definition, however, the majority of managers (twenty four) went on to use a Good/Bad dichotomy to define their *guanxi* encounters. 'Bad' *guanxi* was used to refer to the need for caution when handling expectations of reciprocity, as there was perceived to be a fine line between developing mutually beneficial relationships and falling into a form of favour exchange (or *guanxi xue*) which could be defined as corruption (Wank, 1999). Recalling an encounter with an official who wanted special terms for a personal loan one representative officer noted:

There are good and bad *guanxi*. Bad *guanxi* can mean that you do business with people that you shouldn't do business with. The corrupt *guanxi* because you have to pay them. Good *guanxi* means that you commit yourself and you have a long term view ... but corruption is the bad *guanxi* in China. The bad *guanxi* here is a terrible thing and it's still around and that is one of the dangers to the system.

All but two of the managers were able to provide examples of encounters with 'bad *guanxi*', where an attempt had been made to establish a relationship based, on what by most definitions, would be considered corrupt behaviour. One regional CEO related an event where several of his local staff had been arrested for using company cars to solicit business for massage parlours:

We had some trouble here where a couple of our drivers were doing the wrong thing with our cars and got arrested ... the sergeant of the police said, 'you tell me these are good boys and they can walk' ... [but] I said 'no', and they got

charged. The lawyer said, 'I'm glad you did that, because the police sergeant would have been on the phone to you tomorrow wanting a payback'. That's bad *guanxi*. Because all of a sudden I owe him, 'we're friends, we're here to help you out' kind of thing ... It doesn't happen every day of the week, but it can happen, and it still does happen, and not just to me ...

What this indicates, then, is that for the participants interviewed here, corrupt practices, which they continue to associate with *guanxi*, are a real and enduring element of the business environment in banking. This is not to say that managers were not aware of parallels between *guanxi* and other forms of networks, or that they were not aware of institutional and legislative changes made by central government, but it does indicate that such changes may still have some considerable way to go before they can be said to have diminished *guanxi* practice as predicted by Guthrie in his study during the mid 1990s. What was most intriguing about the data, however, was that although managers shared a similar understanding of *guanxi* and *guanxi xue* (using the terms 'good' and 'bad' to distinguish them), they most certainly did not use their *guanxi* in the same ways. Another question posed to participants probed the techniques they used in order to gain regulatory approval and bank licenses and, as outlined below, the strategies adopted show interesting variation and a degree of creative adaptation as they justify their strategies to what they perceive to be local custom. It is this process of adaptation which demonstrates the practice of bricolage most clearly.

## 2) *Guanxi strategies: bricolage in action*

*i) Long-termism and commitment*

Perhaps the most obvious strategy for developing good *guanxi* is seen in the group of fifteen managers who said that they relied on the connections of their senior level Chinese staff who had already established long-term relationships with government officials. As a general manager noted:

My deputy, who has been 18 years in this bank, has a very good network of good and interesting and important contacts in China from which we benefit enormously. You have to get contacts at different levels, because that's the way to open doors in China. You need an understanding of the way things are organised, delegated and authorised and so on. And she absolutely has that in the regulatory circles.

*Guanxi* building amongst this group, then, was largely driven by a particular notion of 'legitimacy' where the emphasis on establishing and maintaining networks with officials was nested in a discussion of the need to establish relationships supposedly based on long-term commitment. This is not a unique finding (Tung and Worm, 2001) or in any sense unexpected, it is theoretically interesting in the context of this study, however, because it shows the way in which managers establish legitimacy through reference to the specific need for 'commitment' in China. More importantly, it deliberately steers clear of reference to the more nuanced use of *guanxi* in terms of instrumental favour exchange.

*ii) Recruitment for favour exchange*

However, another way in which relationships with officials were developed was through hiring individuals who had been recommended by the officials themselves, usually because they are related to the official or one of their friends. Seven managers adopted this strategy which is, somewhat closer to *guanxi xue* because the development of the relationship with the official was consciously made on the basis of presumed reciprocal gain in the future. Interestingly, managers in this group were keen to justify their actions through emphasising that any employee recruited through this channel must also demonstrate other skills and apply through the standardised recruitment process (even though the appointment was implicitly guaranteed beforehand). A regional CEO noted that while he was ‘open to suggestions’ from officials, any given individual must also show some enthusiasm and aptitude for the post:

We always do get asked though, by people of influence, whether we would consider taking so and so .... And yes, I’ve done that. I’ve hired people from the regulators’ offices and I know that doesn’t do us any harm, but they’ve got to go through a formal process. There is one young bloke who’s the mayor’s son in [Chinese city<sup>4</sup>]. He’s a bright young bloke and he’s a good lad. But I know it gives us a lot of brownie points because we’ve actually got the mayor’s son in here.

Indeed, all in this group were keen to emphasise that political connections alone were not enough to ensure employment. As actors centred between two different forces of influence they drew on those ideas which best suited their interests at the time. First,

there was an attempt to maintain legitimacy through emphasising meritocratic hiring based on standardised formal procedures. Second, there was some flexibility about what was ‘appropriate’ behaviour in China, which derived from working in a context where there was a very real practical need to hire people who were recommended by local officials, not least because it helped to raise the profile of the bank in regulatory circles. The emphasis on hiring a talented *and* connected individual is, therefore, an interesting example of the mechanism of bricolage in action. The managers used explanations which emphasised employee skill and formal recruitment procedures alongside views about the local environment which justified their engagement in reciprocal relationships with local officials who could help advance their business objectives. Although the actual practice of hiring well-connected individuals has been used since the early 1980s (Tung and Worm, 2001) and it is certainly not banking specific, using actor-centred theories to re-interpret such behaviours and, crucially, the rhetoric around legitimacy which underlies them, highlights some of the problems associated with standard neo-institutional models. Specifically, the assumption that China’s greater incorporation into the international economy will inevitably lead to a reduction in the influence of *guanxi* does not provide an explanation for the situations (such as those described here) where international actors *themselves* adapt to what they perceive to be local standards of behaviour. One of the most interesting examples in this regard was an executive who was very keen to emphasise the skills and ability of his more senior appointments. Discussing one well-known Chinese banker (employed at another organization) he stated that the fact that her father-in-law was a famous political figure was a distraction from the high level of her skills. He described her as:

... the best connected banker in the region today. She just happens to be the daughter-in-law of [Chinese official]<sup>5</sup>. But she could bank any market in the world. She could be successful anywhere. She's amazing.

More particularly, he felt it was important for the bank to maintain its own identity, based on its established competencies, and for any success to be seen as the result of the entire team, not just the connections of one individual:

Yes, these people are important, but it only works if they execute deals properly and they can only do that with the help of an expert team, they simply can't operate independently of us and our values and our international reputation.

Again, it is possible to identify a logic of legitimacy in his argument which prioritizes the importance of skills when hiring well-connected individuals. It is also possible to recognize the mechanism of bricolage in play because the logic of appropriateness (the need for information, connections and local influence) must be justified within a framework which foregrounds company values such as individual competency, due process and team work.

*iii) Direct exchange with officials: financial advice and loan support*

In this relatively small group of four, the bankers sought to provide financial advice and loan assistance to an individual official with regulatory influence on the presumption that this would be reciprocated with assistance with licensing issues at a later date. This is probably the closest example of western actors attempting to model

*guanxi xue*. One manager discussed how he had been asked by local officials to provide loan support for a construction project, a request which he had complied with in order to improve his chances of receiving a bank licence, only to find that, when he conformed to the loan request, further loan assistance was requested for a substantially riskier project.

It can be frustrating here because the rules are not laid out explicitly. You come here and want to do something, say get a licence. And you're asked to do certain things, and you do them, and then they say, right you need to do something else now, and you do that, and then you have to do something else as well. And those 'somethings' have involved us in some exchanges which, outside of China, might be problematic, but the thing is that, here, the legal framework is still evolving so you have to give them time in that area and in the meantime you have to do what you have to do to get your business established.

It seems, therefore, that a perception that the rule of law remains weak can lead certain western bankers to engage in 'backdoor practices' under the presumption that this is what is necessary to advance a given business agenda. To use the words of this participant: 'you have to do what you have to do'. Bricolage in this instance occurs because the informants have adjusted their assumptions of what is 'appropriate' and have engaged in possibly corrupt *guanxi* practices which they see as legitimate in the specific context. That is, rather than acknowledge the implications of their *own* actions, the liability is shifted outwards so that responsibility for enforcing change is placed entirely on the shoulders of domestic actors, as this informant says: 'you have

to give *them* time'. It is implied, therefore, that 'normal' business practice should be deferred until such a time, in the unknown future, when rational legal processes have become well-established. By transferring responsibility for change solely to domestic actors, these western managers are, in effect, contributing to the maintenance of informal circumventory practices and are certainly not encouraging convergence towards international norms.

As has been noted, there are, of course, always difficult methodological issues when investigating such sensitive topics, and the data here needs to be understood as contingent and incomplete. But the fact that some managers were prepared to talk openly about behaviours, such as murky loan applications, indicates the very real problems which they face when attempting to build *guanxi* networks. Indeed, as mentioned in Part 1 of the results, all but two managers had experienced an encounter with 'bad' or corrupt *guanxi*. Moreover, there are numerous examples reported in the financial press of foreign business executives being drawn into relationships with local officials which could readily be classed as forms of corruption. One of the most recent examples in the financial sector is the case of Garth Peterson, an American vice-president at Morgan Stanley's property investment office in Shanghai, who was fired in December 2009 on the suspicion that he had violated the U.S. Foreign Corrupt Practices Act (FCPA), a law which aims to eliminate the practice of paying bribes to overseas public officials (Reuters, Nov 10th 2009). In addition, a study by Deloitte in May 2009 said that nine in 10 U.S. businesses were concerned about the possibilities of FCPA violations while doing business in China and an October 2009 report by the law firm Shearman & Sterling has shown that at least 24 U.S. companies have had recent FCPA issues involving China (Reuters, Nov 10th 2010). While these actions



may well prove insignificant in the development of rational-legal systems in China over the long term, it is important to note that it is not inevitable that China's incorporation into the international economy will lead to the displacement of such practices, not least because of processes of adaptation which some international managers *themselves* experience as they adjust their strategies to conform to what they believe to be acceptable and legitimate in the local context.

## **Discussion**

The process of bricolage was particularly evident in the three kinds of relationship-building western managers developed: i) those based on domestic hires (justified through the notion of long-termism and commitment); ii) those where recruitment was used as a form of favour exchange (based on ideas relating to both organizational meritocracy and the perceived 'realities' of needing to curry favour with local officials); and iii) those where financial advice and loan support was used as a way of evading formal procedure (justified again by the perceived necessity of appeasing officials). The managers built solutions to local problems which were not entirely new but, rather, were a recombination of existing ideas they held about the importance of *guanxi* in China and their own organizational values. Moreover, they *used* these ideas to guide their behaviour in diverse ways. Contrast this with traditional explanatory concepts such as 'isomorphism' which assume that homogeneity in organizational form occurs through a process of mimesis. In fact, the participants here drew on a *variety* of practices as they formulated different ways of advancing their business objectives in a rapidly changing environment.

Of course it is important to remember that change occurs at different rates in different dimensions of an institution and there is a need to be sensitive to the time-frames used in interpreting the data. While it was possible to observe relatively rapid change in the formal legislative environment in which the banks operated, the informal normative and cultural-cognitive realms were clearly lagging behind (Scott, 2001). As a cross-sectional study, this paper can only offer a snapshot of the range of practices which were being used at a given point in time. What cannot be discussed here is whether any cluster of practices will be more likely to survive in the long-term, and, if so, what the reasons for that longevity might be (for example, is it because they really do happen to be more efficient or is it because they are just more acceptable in a given local context). However even if, over the long-term, one group is selected over the others, the very fact that innovation and variety has occurred at an earlier stage in the process needs to be documented because it highlights the existence of a dynamic experimental period. Thus we can avoid the rather unsatisfactory explanation found in both functional and path dependency models whereby actors are presumed to simply 'copy' systems from others in their network.

Of course it is also important to acknowledge the limitations of theories of institutional change which place a heavy emphasis on the role of social networks, such as *guanxi*, as they run a real risk of overlooking the structural frameworks, particularly the role of the state as the sovereign actor, which can form ideas (including what consists of legitimate behaviour) in the first place (Yee, 1996). It is certainly true that this study, with its focus on individual action, follows a weak version of methodological individualism. However it is not an attempt to argue that micro-level analysis will account for all the complexity of institutional change (Arrow,

1994), rather, the study is an attempt to redress the balance in relation to the large body of research which pays little attention to individual agency, and, therefore, can tend to slip into somewhat deterministic models of human action. The point here has simply been to show what can be gained in our study of institutional change by considering the variety of practices which western managers use and the ways they piece these ideas together through the process of bricolage. This is particularly important when considering economic institutional adjustment in China where debates have tended to polarize between those who believe that the adoption of rational-legal frameworks in business will inevitably lead to international convergence in business norms and behaviors (Guthrie, 1998) and those who place more emphasis on the unique cultural and historical forces in play in the region (Yang, 1994; Wank 1999). While it may be true that some *internal* institutional pressures are diminishing the role of *guanxi* practice in China's urban economy, it is also important not to overlook the role which *external* forces can play in stalling these changes. As has been demonstrated here, there is an enduring tendency amongst some western managers to encourage *guanxi xue* in order to progress their own business needs.

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## Endnotes

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<sup>1</sup> In the context of this paper ‘western banks’ refers to banks trading in mainland China who are headquartered in the USA, Canada, Western Europe or Australia. The informants interviewed here were all nationals of one of these countries/regions.

<sup>2</sup> The job titles of the managers were: regional chief executive officer (CEO), chief representative officer or general manager. All had direct involvement with decision making in relation to local hires.

<sup>3</sup> Tier rating indicates the capital adequacy of a bank as assessed by regulators. Tier 1 represents a bank with more resources than a Tier 2 institution.

<sup>4</sup> Names of cities are anonymised to protect confidentiality.

<sup>5</sup> Names of individuals are anonymised to protect confidentiality.