
Guanxi Practices and Trust in Management: A procedural Justice Perspective

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General Research Question

How does guanxi practices in HR affect trust in management?

Two Studies:

1. A negative relationship between guanxi practices and trust? Mediated through procedural justice?
2. Causal relationship? Effects of guanxi bases?

General Theoretical Background

- ◆ Social Networking
 - Structural approach: network positions
 - Focus on network benefits
 - From actors' point of view
- ◆ Organizational Justice
 - Distributive, Procedural, and Interactional Justice
 - Interactions among justice types
- ◆ Trust in Authority
- ◆ Current study: Takes a behavioral approach, focuses on the downside of social networking, and from the perspective of the third party or the organization

Trust and Its Importance

Trust is

- ◆ Positive expectation by A that B will act beneficially to B
 - Calculus-, deterrence-based
 - Affect-, benevolence-based
 - Ability-, cognition-based
 - Integrity-based

Is trust important in Chinese Organizations?

- ◆ Not important due to high power distance
- ◆ Important due to:
 - Global work force
 - Trust and legitimacy, esp. at times of change
 - Effect of trust on employee behavior
 - » Discretionary behavior
 - » Creative behavior

Conceptual Issues of Guanxi

Guanxi: Relations, Connections, Ties

◆ Formal vs. informal relationships

Informal: Personal relations external to or independent of the current formal relationships as prescribed by the organization

◆ Guanxi, guanxi bases, and guanxi closeness

- General vs. special relationships
- Often based on shared institutions
- Social categories: family people-familiar people-and strangers

◆ Guanxi vs. guanxi practices

Practices: “the use of these social relationships to make exchanges, manufacturing indebtedness, or accomplish tasks”

When Can Guanxi Practices Be Dysfunctional?

- ◆ Public Domains of Life: personal use of public resources, conflicts of interest
- ◆ From a procedural justice perspective: employees are concerned with distributive and procedural fairness. Procedural Neutrality
 - Decisions not based on personal preferences
 - The suppression rule: suppressing biases, blind allegiance to self-interest

Do Chinese Employees care about Procedural Justice?

- ◆ Particularism in traditional Chinese culture
- ◆ Merit-base governance (ren xian yong neng)
- ◆ Reforms
 - Ideological
 - Economic and enterprise
- ◆ Research evidence
 - Reward allocation: performance vs. needs
 - Moral integrity: no nepotism, following the law

Hypotheses

- H1: A negative effect of guanxi practice on trust in management
- H2: The negative effect will be mediated by perceived procedural justice
- H3: Guanxi-based HRM decisions will reduce trust in management according to relational closeness such that: favoring a familiar tie will reduce trust to a greater degree than favoring a neutral party, and favoring a family tie will reduce trust to a greater degree than favoring a familiar tie.

Methodology

Pilot Study: Developing Measures

- Focus groups
- Survey of 120 executive MBA students

Study 1

- Testing H1 and H2
- Survey of 140 executive MBA students

Major and Control Variables

Major Variables:

Guanxi practice

Trust in Management

Procedural Justice

Control Variables:

Guanxi prevalence

Outcome favorability

Individual and company backgrounds:

Age, Sex, Firm Ownership

Study 2

Promotion Scenarios

- Four candidates, three of whom have similar qualifications (age, education, performance, and ratings)
- GM picked one candidate and the other two complained

Manipulation:

- Nephew, Country fellow, Schoolmate, Close friend, and Neutral

Measures

- ◆ Trust in the authority ($\alpha = .91$)
 - Trust top managers of my company
 - Confident in the integrity of top managers
 - Confident that top managers can make right decisions
 - Top managers have a strong sense of integrity
 - Top managers' behaviors are guided by correct principles
 - Top managers' actions are inconsistent with words (reversed)
- ◆ Guanxi practice ($\alpha = .91$)
 - Many people joined the company through guanxi
 - Many people got promoted through guanxi
 - Bonuses and salary are often decided based on guanxi
 - Task allocations are often decided based on guanxi
 - Performance appraisal are often influenced by guanxi

Measures

- ◆ Guanxi Prevalence ($\alpha = .94$)
 - How likely do guanxi networks exist in your company?
 - Are there many guanxi networks in your company?
 - How many people are involved in guanxi networks?
 - Compared to other companies, how many guanxi networks exist in your company?
- ◆ Outcome Favorability ($\alpha = .75$)
 - How favorable are the policies and procedures at your company to you?
 - How often do your company's decisions benefit you?
- ◆ Procedural Justice ($\alpha = .94$)
 - Company is fair to all employees
 - Company treats all employees the same
 - All employees receive equal treatment

Study 1: Regression on Trust in Management (N=113)

Terms	M1	M2	M3	M 4
Age	.27**	.23**	.19*	.19*
Sex	.03	-.00	.10	.07
Foreign-owned ^a	-.20*	-.22**	-.23**	-.23**
Private-owned	-.07	-.10	-.08	-.09
Other ownership	-.00	-.00	-.03	-.03
Guanxi Prevalence	-.26**	-.14	-.08	-.04
Favorability	.26**	.21*	.13	.12
Guanxi Practice		-.30**		-.13
Procedural Justice			.45***	.40***
Δ Adjusted R ²	.28	.33	.39	.40
Δ F-Value	7.19***	9.02***	21.84***	13.38***

a. State-ownership is the omitted category; *p < .05, **p<.01; ***p<.001

Relational Closeness and Trust in Management – Study Two

Guanxi Bases	N	Trust in Management		Pair-wise Contrasts			
		Mean	s.d.	Home town	School mate	Close Friend	Neutral
Nephew	26	4.06	.93	-.01	-.62*	-.75*	-1.04*
Hometown	26	4.07	.93		-.61*	-.74*	-.99**
Schoolmate	23	4.68	1.25			-.13	-.32
Close friend	22	4.81	1.16				-.29
Neutral	19	5.20	.78				
Total	116	4.51	1.10				

*p < .05; **p < .01

Discussion

Theoretical

- ◆ Downsides of guanxi practice, a balanced approach to network functionality
- ◆ Relational neutrality, its interaction with structural procedures, voice, and interpersonal sensitivity
- ◆ Effects of different guanxi bases

Practical

- ◆ Tension between private and public ethics
- ◆ Justifying guanxi practices
- ◆ Setting up just structures