

## HOW IS PRODUCING GUANXI CHANGING AS THE CHINESE STATE OWNED ENTERPRISE BECOMES PRIVATISED?

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### **Abstract**

*As the Chinese market economy continues to gather momentum, how are the methods of producing guanxi in State Owned Enterprises (SOE) evolving in response to privatisation? Qualitative research conducted between 1999 and 2007 at an SOE in south-west China found methods of producing guanxi are changing due to the modernisation of management methods, increasing market forces and family based work cliques being replaced by professional work based relationships founded on employees providing quality services. The findings suggest that stakeholders involved in takeovers or joint ventures concerning SOE need to be aware of the new management methods and ways of harnessing guanxi if they are to fully realise the profitability of their newly privatised firm.*

**Keywords:** Guanxi, State Owned Enterprises, Reform, Management, China.

### **Introduction**

Guanxi generally refers to a special type of relationship that bonds through the reciprocal exchange of favours and mutual obligations [1][38]. Producing guanxi has long been an important characteristic of successfully conducting business in China [67][43][21][60][39][15] and few challenge the importance of establishing, cultivating and making use of guanxi [24][23]. Both in business and sociological contexts the practice of guanxi is a prevalent and important part of Chinese society [28][26][7].

Researchers have attempted to describe how guanxi and its methods of production are evolving in the midst of rapid institutional transformations that have swept across China since the late 1970s [23]. Like the rest of China, SOE are undergoing economic, managerial and social change [17] as they respond to China's developing market economy and one cannot see guanxi in this environment as an unchanging and fixed cultural trait. Previous studies on producing guanxi in government [65], between businesses [20], among officials [63] or in the social environment [63] have not focused on producing guanxi in SOE and the findings here extend the theory on guanxi in this context.

Why would the methods of producing guanxi in SOE be evolving? In the movement from planned to market economy, the formal constraints from the planned economy are being weakened during the transition [45]. As the state gradually relinquishes its role in policing economic exchanges, state firms are being granted more and more autonomy with government increasingly tolerating more private ownership and private and collective firms outside the state sector [41]. As state firms become more privatised they require stronger and more dynamic

management to adapt to survival under market economy conditions. Although informal constraints (like guanxi) embedded in customs, traditions and codes of conduct are much more impervious to deliberate policies [41] they must begin to evolve as a SOE becomes privatised. Peng [44] argues that during these transitions, pre-existing networks of affiliation are activated, and network ties become much more important as informal constraints. As the transition of a SOE to privatisation gathers momentum, reforms solidify and the pre-existing internal organisational networks and cliques among employers and managers are being fractured and in some cases eliminated. From this point, new personalized and network based exchanges can emerge as a consequence of developing new formal constraints [14].

This qualitative research was conducted at the Roaring Dragon Hotel (RDH) in Yunnan Province between 1999 and 2007. During this period the RDH evolved from being state owned to become fully privatised. Employee perceptions of the changes occurring to the characteristics of guanxi across this time period were measured through 128 interviews with directors, managers, employees, suppliers and customers from the Hotel. Here descriptions from nine years of longitudinal research and the discussion that follows provide a better understanding of how the methods of producing guanxi in SOE are evolving as they develop into privatised companies. The conclusions are preceded by the studies limitations and directions for future research.

Assuming one of China's 4000 large state owned firms commences the process of privatisation each week, it is estimated it will take 80 years to complete the process [68]. A better understanding of how the guanxi phenomenon is evolving in these organisations will benefit new owners, directors and

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managers trying to develop a successful business in the new market economy. The implications of these changes in SOE are that post-privatisation managers and stakeholders will need to implement procedures to eliminate the counter-productive characteristics of organisational guanxi and take positive steps to enhance the positive characteristics of this phenomenon.

## Literature Review

Pye [46] described guanxi as ‘friendship with continued exchange of favours’. More specifically, guanxi is a Chinese idiom of social networks, integrally linked to other building blocks of Chinese sociality such as ganqing (sentiment), renqing (human feelings), bao (reciprocity) [23] and mianzi (face) [47]. Yang [59] described building guanxi as a process of transformation whereby two discreet individuals construct a basis of familiarity to enable the subsequent development of a relationship. In the process, the gap between two unrelated individuals is bridged so that an outsider becomes part of the insider network of another person [63]. A person who can produce guanxi is able to extract favours from their connection or partner [46].

Identifying the methods of producing or ‘pulling’ guanxi in SOE is a challenge as this phenomenon exists in many different situations, develops in many different ways, and each guanxi relationship carries its own connotations and history [27][30]. In Chinese SOE, it usually means a person using their guanxi to extract a favour from an employee, manager, senior manager, director, customer, supplier or government official. In this context, guanxi interaction is a way of life and a personal investment is required to develop and maintain good business relations [52]. Individuals who cultivate their guanxi in order to satisfy their personal interests must also be prepared to meet the reciprocal future obligation to assist others who are connected to them.

## Methods of Producing Guanxi in State Owned Enterprises

### 1. The Guanxi Base

To build guanxi one needs to establish a common point or guanxi base that one shares with others such as having a common workplace, locality, attending the same school, having some form of kinship, friendship [65] or having the same interests and hobbies [29]. Different guanxi bases define different relationships and trigger different principles of interaction, which in turn bring out different outcomes [10]. In SOE employees work together, often live in the same locality and are

often related which satisfies the core bases required to establish guanxi. SOE provide the suitable environment for employees to participate in the production of guanxi.

While the bases for guanxi may be naturally occurring or created in SOE guanxi must be consciously produced, cultivated and maintained over time [30][60].

### 2. Gift Giving

Gift giving is an approach to building and maintaining guanxi that can best be done on such occasions as festivals, birthdays, business success and special events such as one’s children graduating from school [63][57]. Such gift giving is an art and choosing the right gift and presenting it at the right moment does require sensitivity. In SOE, employee’s guanxi with their supervisors can be cultivated through the giving of small gifts or the performance of favours with the purpose of gaining a future advantage [51: 180].

Special prices and services to customers are further examples of gift giving in SOE. These gifts are generally not bribes in the sense of being a direct exchange for specific goods and services at one moment in time; they are an investment in a long term personal relationship [56][66]. It is a system of gifts and favours in which obligation and indebtedness are manufactured, and there is no time limit on repayment [60][23].

### 3. Nepotism

Guanxi has a significant impact on an individual's probability of securing a job and it may also support nepotism and discriminate against those who do not have it [64][4]. Hiring a member of your network or one of their offspring or family is an effective method of producing guanxi and providing jobs for relatives or members of one’s own family or connections is a common occurrence in SOE [22]. In addition to enhancing strong relationships between managers, family members and connections, it also gives managers and director’s confidence that nobody will disagree with any of their future decisions, as well as ensuring the confidentiality of any issues they do not want exposed.

### 4. Dinner Engagements

Inviting the person you wish to develop guanxi with to a restaurant, your own home or place of business for a meal is another effective method of producing guanxi in SOE. For SOE Managers, often negotiations with Government officials, customers and other stakeholders are undertaken at

the banquet table. This is an important environment in which to enhance the establishment of relations, gain approvals and develop trust [22].

## 5. Building Trust

In SOE, the general consensus of having good guanxi implies having a successful history of working together, providing favours and building trust over time [55] and an employee's level of trust in their supervisor is related to the quality of guanxi they enjoy with this person [19][50][54]. Managers who take time to interact and socialize with employees can gain the employee's respect and trust and this helps to produce guanxi between them (Wu 1996). Offering privileges to 'Zijiren' (insiders) and limiting personal interaction with 'Weyeren' (outsiders) are salient features of guanxi relations [59]. In SOE this can result in two divided groups of employees: those with guanxi who enjoy privileges and benefits and those without do not. Invariably, in SOE those without guanxi work much harder [22].

## 6. Flattery and Praise

To produce guanxi in SOE an employee may engage in flattering, exaggerating or condescending behaviours to illuminate their superior's status or managerial capability [56][32]. To aid in guanxi production, such flattery must be complemented by relationships based on emotional ties, trust and long term mutual benefits.

## 7. The Third Person

If two people do not have a guanxi base then it is possible that guanxi can be transferable between parties (i.e. A and C) if they have a common connection (i.e. B). Using intermediaries to establish such a connection is possible however the extent of transferability depends on the strength of the ties which A and C have with B [42] [63][10]. Such a connection is needed to provide the familiarity, trust and obligation needed to help tie the seeker and the potential helper [5]. This alter-casting results in the establishment of guanxi between two individuals who have no prescribed commonality or guanxi base. This transferability is always problematic and attempting to transfer strong guanxi takes time and the development of a new field of trust. The objective is to rearrange a person's social network in such a way as to involve the individual who wishes to be included in it [63: 61]. In SOE, this transfer can take place in the workplace or through the interactions of employees, government officials and customers.

## 8. Reciprocity

Reciprocity is a key component of responding to an initial offer to establish guanxi between two individuals. The norm of reciprocity creates an obligation from the receiver towards the initiator [26][34] and is sometimes used to create competitive business advantages [49]. The Chinese analogy of 'if someone pays you an honour of a linear foot, you should reciprocate by honouring the giver with ten linear feet' [63][53] captures the essence of the reciprocity principle contained in maintaining guanxi. This value of guanxi between giver and receiver never balances, which promotes its ongoing existence and longevity [13]. When a person offers a favour it should be accepted; when a favour is given one is obligated to return it and one should attempt to return the favour promptly; when one is asked a favour, one should comply and one should wait for the favour to be returned. These are the core rules of guanxi reciprocation [58] and in SOE any employee who produces guanxi with a supervisor, fellow work mate or customer is bound to return the favour at some time in the future.

Once guanxi is recognized between two people, each can ask a favour of the other with the expectation that the debt incurred will be repaid sometime in the future [60]. The notion of reciprocal obligation and indebtedness is central to the system of guanxi and this is more than simply an issue of social connection [60][23].

## Guanxi Maintenance

Guanxi is maintained and reinforced through continuous, long term association and interaction and there are essentially four strategies for maintaining guanxi relationships: continuing to tender favours, nurturing long-term mutual benefits, cultivating personal relationships and cultivating trust [63: 62]. For guanxi to grow and last in SOE, both parties in the relationship need to maintain contact and keep regular tabs on the state of their relationship [2].

## Research Site

The Roaring Dragon Hotel (RDH) – Yunnan Province

Established in 1952 as an SOE, the RDH enjoyed a reputation as among the finest accommodation providers in Yunnan Province, with a long and colourful history as a premier guesthouse for visiting government officials, party members, dignitaries and guests.

Prior to the processes of reform commencing at the RDH in 2005, poor work practices, unsystematic production systems, backward technology and a

reward system unrelated to performance were characteristics of the organisation [6][8][39]. In this climate, RDH Directors were not concerned with income generation but primarily focused on providing accommodation and services for senior government officials, important Party members and high profile guests.

In 2005, the four-star RDH was purchased by a Tobacco company and closed for demolition and the commencement of construction of a new five star facility to cater for the growing number of tourists, government functions and private business people visiting the region. The newly privatised five-star RDH re-opened to business in June 2006 featuring more than 250 rooms, a grand entrance lobby, broad open walkways, a business centre, heated pool, gymnasium, conference centre, sauna, private tea rooms and large function centers to cater to conferences, banquets and special events.

## Methodology

ost Chinese practice guanxi to varying degrees of effectiveness, artistry and secrecy and few would admit to it publicly, especially on their first meeting with a researcher [61]. Respecting this caveat, the author established relationships with Hotel staff and employees at the RDH over a nine month period in 1999 and during that time interviewed Hotel directors, managers, employees, government officials and customers with whom he had developed trust. On repeat visits to the research site between 1999 and 2007, 29 multiple interviews and 22 single one-off interviews were conducted with directors, managers, employees, government officials and customers to establish a longitudinal perspective. Recorded in 1999, 2001, 2002, 2004, 2006 and 2007, the interviews were conducted in English, Mandarin or local dialect and when necessary clarity was provided by a translator from the Yunnan University of Finance or the University of Western Australia.

The semi-structured method [40: 110–112] used was focused on four topics allowing the interviewer to probe beyond the initial answers and where possible enter into a dialogue with the interviewee. Respondents were asked to recall any events at the Hotel that they thought involved guanxi between employees, to describe what they thought were the most significant and most commonly used methods of producing guanxi, to cite any changes in methods of producing at the Hotel that may be occurring and to identify any characteristics that were changing in their work environment that were affecting the significance of guanxi. The confidentiality of all participants was maintained so as to encourage honest answers.

## RESULTS

### Guanxi at the Roaring Dragon Hotel

#### 1. Period 1999-2005

In 1999, all RDH employees were accommodated by the RDH on-site or in the near vicinity of the Hotel as decreed by the danwei [37][36]. All single employees lived together in a four storey building adjacent to the Hotel and all couples and their families lived in apartments nearby. In the workplace, RDH managers and employees had little or no ownership of business decisions that affected them resulting in limited organisational loyalty and poor motivation among workers [6][9]. The lack of a consistent demand on employees to be actively involved in organisational planning and operation, combined with the relationship-based style of management, provided the fertile environment for internal family based networks, cliques and guanxi to develop and blossom among Hotel employees at all levels [22]. The SOE was managed by untrained Party cadres whose position and power in the SOE usually correlated with either their positions within the hierarchy of the party or in the strength of their guanxi with party officials [6][9][46].

Employee contracts were for a period of three years and these contracts were usually renewed without question. There was no evidence of any type of occupational reward or incentive system. In terms of employee motivation, there was limited training and little incentive to work hard, be efficient or produce quality outcomes. The pressure to perform on employees who had guanxi with superiors was minimal and little change was evident.

The recruitment process was primarily based on guanxi and even though a Hotel regulation stated that relatives of an employee were not permitted to work in the same hotel, the Training Manager admitted that 'it was common for a manager or supervisor to find a daughter, son or a relative a position at the Hotel'<sup>1</sup>. The Food-and-Beverage Department manager described how 'at one time there were more than 2 members from each of 32 families working in the hotel, with up to thirteen people from one family working in the same department'<sup>2</sup>. Some had limited work skills, but 'because they had the right relationships, they were assured of a position somewhere at the RDH'<sup>3</sup>. During her ten years in the position, the Human Resource Director had approved all senior

<sup>1</sup> Interview Training Manager 1 RDH 22/9/99

<sup>2</sup> Interview Food and Beverage Manager 1 RDH 20/10/99

<sup>3</sup> Interview Human Resources Manager 1 RDH 3/11/99

appointments describing how ‘middle and higher management positions often did not go to the best qualified, but rather to the best connected’<sup>4</sup> [48][35]. With each favour granted, there would accrue the potential requirement for a return favour at sometime in the future.

In 1999, China’s system of work placement meant that husbands and wives often lived and worked in different parts of the country. Movement of workers from villages to cities was difficult as such a move had to be approved by the public security bureau and the provincial government. Separated couples in this situation found that producing *guanxi* with powerful officials was invariably their only tool to enable them to gain a transfer to find employment in the same city as their spouse. ‘The building of strong *guanxi* relationships over time with important government and party officials who were RDH customers enabled many RDH employees caught in this situation to obtain the necessary approval required for their wives/husbands to transfer from villages to positions in the laundry or housekeeping departments at the Hotel’<sup>5</sup>. Couples without such *guanxi* invariably remained separated. The majority of RDH employees had secured positions at the Hotel through transfers from other SOE and government departments primarily on the strength of their *guanxi* with government and Party officials [43][56][63].

The RDH was generously overstaffed and reflecting the employees’ easy workload was the fact that it rarely attracted more than fifty-percent occupancy. Employees who produced and maintained good *guanxi* with their manager could start work a little late, have no shift work, have weekends off, be given a task that required little effort and sometimes earn more money.

Each departmental manager had their own internal clique, or ‘in-group’ composed of a small number of members from their department who made decisions on how to gain or use the Hotel’s resources to the clique’s advantage [13]. Security and protection provided by membership of the clique was repaid through loyalty, secrecy and the commitment to work toward mutual benefits. In this environment, mutual cooperation and trust were upheld as priorities [3][12] and members of the clique shared fringe benefits. Clique solidarity brought with it stability in relations, security of position, survival of the in-group and protection enabling members to ‘conduct their own private business outside the Hotel and sometimes during working hours’<sup>6</sup>.

<sup>4</sup> Interview Human Resources Manager 2 RDH 24/11/02

<sup>5</sup> Interview Food and Beverage Manager 2 RDH 9/12/99

<sup>6</sup> Interview Housekeeping Manager RDH 1 14/12/01

With in-group trust came strong ties [33], the corresponding development of a deep mistrust of out-group members [62] and a type of ‘crony capitalism’ whereby in-group members were selected strictly on the basis of specific attachments or kinship, without regard for ability [35]. Cliques were internally focused, ‘often competing with others for resources within the Hotel resulting in limited communication between departments’<sup>7</sup>. Clique insiders who exposed any ‘secret’ information to outsiders would be expelled from the clique resulting in a loss of their benefits including access to information, invitations to banquets and social activities, and other benefits that would accrue through mutual cooperation [22].

Clique members in the security, housekeeping and engineering departments did little work but enjoyed many favours and benefits. Housekeeping supervisors let members of their *guanxi* network or *guanxiwang* use ‘rooms free of charge; supervisors working on the night shift clocked in, went out and returned next morning to clock out’<sup>8</sup>; and rooms were listed as being ‘out of order so managers and captains could go and watch television, sleep, read or play cards’<sup>9</sup>. Under-employed ‘insiders’ could not be fired or made redundant and because of their *guanxi* they were retained by the organisation on low wages even though they were rarely occupied. Some employees had *guanxi* with higher government or party officials and their managers were circumspect in their communications with them avoiding harsh criticisms or hasty actions.

Employees regularly assisted at banquets or events at the Hotel and often viewed social activities and entertainment being used by stakeholders to produce and maintain *guanxi* among friends and officials. From time to time, RDH employees with *guanxi* were also ‘invited to participate in banquets by managers of their clique as a reward for their loyalty’<sup>10</sup>.

The usual dissemination of departmental information by hand written notices or verbal communication enhanced the secrecy and power of such cliques. Managers showed favouritism toward special members of their staff by ‘providing them with special opportunities for dining and sharing time together’<sup>11</sup>. As a result, there were two classes of employees at the RDH: those with *guanxi* who enjoyed benefits and favours, those without did not.

<sup>7</sup> Interview General Manager 1 RDH 7/12/01

<sup>8</sup> Interview Food and Beverage Manager 3 RDH 15/12/99

<sup>9</sup> Interview Marketing Manager RDH 1 12/11/02

<sup>10</sup> Interview Accounts Manager 1 RDH 10/12/04

<sup>11</sup> Interview Bell Boy Manager 1 RDH 2/12/99

Time was taken by departmental managers to maintain and nurture guanxi to secure internal supplies, keep workloads low and maintain nepotistic advantages [51][63][48]. There was no pressure on management to make a profit or balance the financial accounts as the RDH was completely state owned and operating under the pre-reform SOE system focused on providing services for government and Party officials. This was before serious reform or any steps toward privatisation had commenced at the RDH.

## 2. Period 2005 – 2007

During the period of closure, demolition, reconstruction and takeover of the RDH in 2005-2006, new policies were introduced and intense training programs for employees were undertaken. A new rule was implemented stating that departments 'could no longer be managed by staff older than 45 years of age'<sup>12</sup> resulting in only one of the former 38 pre-2005 senior managers still holding their senior positions. The one surviving Manager enjoyed exceptionally strong guanxi with the Hotel's General Manager (GM) and that ensured his short-term job security. Another former manager whose relationship was not as strong with the GM lost his position to a younger employee whom he had previously trained. He spoke of his loss of status and how 'some employees whom he had got on well with still accorded him respect or face, whilst others now ignored or treated him badly'<sup>13</sup>. As the reform processes in the newly privatised company gained momentum the former relationship structures began to fracture.

With the redundancy or demotion of the managers older than 45 years, the former cliques that were once powerful pre-2005 appeared to have been dismantled by 2007. Employees who did not have the skills and ability to operate in a professional team had moved on to employment elsewhere, taken redundancy or retired. The workers were replaced by younger, better trained and more effective personnel who were determined to impress their superiors and who by 2007 had begun to progress to higher levels of responsibility. Some of the new generation of managers came from external and overseas locations and were unaware of the old organisational ways. The organisation was in transition from a relationship-dominant environment to one that focused on quality customer service.

Employee training and re-staffing had become priorities enhancing the evolution of a new management culture to complement the improved

quality of facilities. Younger managers assumed a new level of professionalism and trained harder, were given more responsibility, better direction and were consequently more confident in delivering significant improvements in the quality of services offered to customers. One well trained employee was now responsible for the same task two or three employees were assigned to complete pre-2005 and the standard of service had also improved significantly.

Communication methods improved significantly with department heads, managers and captains attending compulsory weekly meetings to discuss operations, strategy and implementation of policy. In sharp contrast to pre-2005, managers were also 'equipped with mobile phone technology and all employees were contactable through the Hotel's new internal communication system'<sup>14</sup>.

Having guanxi with the managers at the RDH was no longer enough to gain a position as an employee. 'Quality skills, education and experience are now at the top of selection criteria'<sup>15</sup> with HR assessors being known to 'tactfully refuse a candidate if they were not good enough, in spite of them having significant guanxi'<sup>16</sup>. This had resulted in a reduction in the number of employees remaining who had originally gained their position through guanxi. These employees no longer occupied senior positions with greater responsibilities unless their qualifications and ability were proven. Providing quality service to customers had become the number one priority.

Human Resource Managers and Directors at the RDH alike could no longer afford the risk of placing someone in a senior role, without the requisite skills, qualifications and ability. 'Good guanxi with an important connection or with senior staff at the RDH did still enable new applicants to get through to the interview stage for a position, however securing a position was no longer guaranteed'<sup>17</sup>. The onus on providing quality service to a much broader variety of customers, whilst generating a profit, had promoted the implementation of modern management practices. Senior Managers commented that they 'now avoided having well connected employees on their team because they were difficult to manage or dismiss due to the influence of their sometimes powerful connections'<sup>18</sup>.

Pre-2005, employee recruitment came mainly from the local government and community and through guanxi relationships without emphasis on

<sup>12</sup> Interview Front Office Manager 1 RDH 23/12/06

<sup>13</sup> Interview Training Manager RDH 2 7/12/06

<sup>14</sup> Interview IT Manager 1 RDH 22/11/07

<sup>15</sup> Interview Human Resources Manager 2 RDH 24/11/07

<sup>16</sup> Interview Housekeeping Manager 1 RDH 26/11/07

<sup>17</sup> Interview Housekeeping Manager 2 RDH 14/12/07

<sup>18</sup> Interview Food and Beverage Manager 1 RDH 1/12/07

educational qualifications. By 2007, all employees in the front office, engineering and reception were drawn from Universities and specialist colleges with some employees coming from as far as Denmark, Singapore and Hong Kong - these were new recruits without any pre-existing guanxi base with incumbent employees or superiors.

Employees were now hired on yearly contracts and each was assessed annually before contract renewals. 'If they were not performing to standard, they would be sent on a training course or asked to leave'<sup>19</sup>. A merit based incentive reward system was established and gathering momentum. Competitions rewarding employees and departments for excellence were another incentive to promote higher quality service and employee commitment to the organisation rather than the former guanxi requirement of providing loyalty to powerful or well connected individuals.

Could an employee still build good guanxi with their managers in 2007? Most managers replied emphatically that 'one must work hard and generate a high standard of service'<sup>20</sup> if you were to become part of their team. When pressed further, most highlighted their commitment to ability and skills whilst a few quietly indicated 'some guanxi advantages may still exist'<sup>21</sup>. These whispers accurately illustrate how the SOE organisational guanxi advantages of pre-2005 had gone 'underground' in some RDH departments managed by long serving employees or had been significantly diminished or eliminated in those being managed by newcomers. New professional standards of service quality, management, communication, training and motivation had been implemented.

## Discussion

The methods of guanxi production at the RDH have changed due to the growing pressure of the Chinese market economy and the evolution of more professional management practices. The elimination of overstaffing, the decline in the size and influence of families in the organisation, the decay of organisational cliques, the improved motivation and incentives for workers to produce quality work, a reduction in the age of departmental managers, the implementation of better training systems, the replacement of formerly untrained managers with trained managers and better hiring practices are all factors contributing to the change.

Pre-2005, senior management were involved in coordinating cliques, favours, insiders and

outsiders. In direct contrast, managers by 2007 aimed to treat all their employees equally and showed no obvious open favouritism. Managerial reform at the RDH now made it necessary for managers to change their work place practices as a consequence of their newly privatised organisation's mandate of profitability.

Responses reflected the change in RDH policy that now promoted 'quality service'<sup>22</sup>, 'professionalism'<sup>23</sup> and 'teamwork between workers'<sup>24</sup>. New recruits and candidates for promotion are now chosen on their ability to perform and produce quality outcomes rather than on the pre-2005 strength of their guanxi. Incentive programs at the RDH are now team-oriented and reward excellence whereas pre-2005, those who had the strongest relationships with the powerful decision makers and loyalty and ability to guard secrets were rewarded. An example of this was in 1999: an international tour of employees who were supposedly recognized for their work performance revealed that all those chosen had strong guanxi with the RDH Senior Managers or members of government. In comparison, the 35 employees taken on a similar tour in 2007 were all rewarded based on their quality of service and performance.

Managers who previously had up to 35 years experience in the same department had been made redundant or replaced by new managers who were less than 45 years of age. This resulted in family dominance within departments being significantly reduced or eliminated. Pre-2005 Department Managers influenced the choice of all of their employees through their guanxi. In contrast, new department managers in 2007 led teams of employees chosen on their ability and developing their commitment and ability to providing quality service had become very important.

Cross departmental transfers, appointments from external sources, redundancy and a period of high turnover in the RDH population were all contributing factors to the breakdown of departmental cliques. In 2007, many employees worked with or under managers with whom they had no previous relationships or guanxi base or at best only weak-ties. Long serving employees who had lost their insider advantage of their clique position through a change in management were now engaging more in professional personal relationships with their superiors. The elimination of cliques and the establishment of new management processes at the RDH have either dissolved or weakened many strong guanxi ties in the workplace. The relationship chaos resulting

<sup>19</sup> Interview Finance Department Manager 1 RDH 22/12/07

<sup>20</sup> Interview Housekeeping Manager 2 RDH, 14/12/06

<sup>21</sup> Interview Human Resources Manager 4 RDH 15/12/07

<sup>22</sup> Interview Transport Manager 1 RDH 26/11/07

<sup>23</sup> Interview General Manager 2 RDH 28/11/07

<sup>24</sup> Interview General Manager 1 RDH 12/12/06

from the new structure, control and management techniques were disruptive to organisational guanxi relationships [25].

As a result of reform, the family-based composition of departmental cliques had been replaced by a new network of relationships based on professionalism. Minimal favouritism may still exist in some departments however the primary criteria for an employee building guanxi with their manager now is to work hard, show commitment, produce good team work and deliver quality service.

New managers interviewed in 2007 strongly supported the view that guanxi no longer played a role in the recruitment process or in other activities within departments under their control. Undoubtedly, there were still departments within the RDH, managed by long-serving staff, that are changing more gradually compared to those being managed by new recruits and more modern methods. However there was a new impetus on employees to be more efficient, team oriented and professional and if managers or employees did not perform with efficient skills and ability, their service contracts could even be discontinued.

In the past, RDH organisational cliques were the engine rooms of guanxi and their demise is contributing significantly to the decline in importance and change in the methods of producing guanxi.

Significantly, the trust embedded in the former family-backed relationships has been seriously eroded due to the appointment of younger and more educated managers with whom employees had no previous guanxi base. Recruiting more educated employees, implementing effective training programs and establishing appropriate and fairer systems of incentive and remuneration have proven popular amongst employees since 2007. This has replaced their former motivation of serving their departmental superiors with one of serving their customers.

In reflection, Fang's [18] ocean analogy succinctly describes what is occurring. During China's Cultural Revolution the market economy characteristics in China were so strongly suppressed through the prevailing political ideology that the former market driven business culture of the previously entrepreneurial Chinese hoteliers, among others, were seriously dented and driven to the depths of the ocean and into hibernation. Eliminating privately owned Hotels and replacing them with SOE was an example of this. Now with the gradual re-stimulation of Chinese capitalism through the emerging market economy, the characteristics that

have long waited hidden in the depths of the ocean are now coming to the surface to re-occupy their former place. Hence one is not surprised by the re-development of more western market and management characteristics replacing the former family and relationship driven characteristics dominated by guanxi.

### Limitations of Research

To consolidate these findings further, additional research is required to investigate if these changes are occurring in SOE in other industries as they transit from being State Owned to privatisation. Although this research in the longitudinal context is rich, a limitation of this study is that it provides results from only one hotel's transition from a state owned enterprise to a privatised company. Furthermore as this research was conducted in Yunnan Province in south-west China, the conclusions and findings are restricted to a single location and are possibly region specific. Consequently, SOE in other industries spread across China need to be tested to investigate if such changes are uniform across the nation.

### Conclusion

New professional management and HR practices in SOE are eliminating organisational cliques and replacing family trust based organisational guanxi with professional performance based employee relationships.

In privatised SOE, strong cliques and guanxi networks (guanxiwang) have been dislocated through the recruitment and appointment of new managers, cross departmental transfers, adoption of new management techniques and employee turnover.

Guanxi developed in privatised SOE is nurtured through quality, consistent and reliable work performance in contrast to the former methods of maintaining secrecy, gift giving, nepotism, family contact and exchange of favours.

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