ABSTRACT

Guanxi social networks are part of the fabric of Chinese society and central to every aspect of Chinese life including work. The relationship between guanxi and cronyism has been researched and discussed by scholars in Supervisor-Subordinate Guanxi (SSG) studies. However, SSG cannot explain the full extent of cronyism in Chinese management, which usually encompasses a network of actors including a supervisor, a subordinate, a third party (called “leader”) who has a higher ranking than a subordinate, and possibly an intermediary between a leader and a supervisor in the same organization. Consequently, this paper develops a new construct Leader-Follower Guanxi (LFG) to explain cronyism in Chinese management. LFG is defined as the existence of direct particularistic (in-group) ties associated with a particular set of differentiated behavioral obligations based on social norms between a leader and a follower in the same organization. We examine the relationship between LFG and cronyism in Chinese organizations, and propose that LFG will be positively associated with cronyism. We then use Chinese “face” theory (*mianzi* and *lian*) to illustrate how LFG engenders cronyism in Chinese management. We assert that LFG serves as an invisible hand of cronyism in Chinese organizations. Finally, we consider how to develop leadership and HR practices that prevent cronyism in Chinese organizations.

Key words: Leader-Follower Guanxi (LFG), Cronyism, Relational Collectivism, Face

Theory, Social Networks

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Introduction

Guanxi is a practice of social exchanges, expressed through reciprocal favour seeking and provision of benefit (Barbalet 2015; Qi 2013). In organizations guanxi networks may have negative consequences in that those inside a guanxi network may receive special favors and those outside a guanxi network may be discriminated against. In this way guanxi may benefit the few at the expense of many (Dunfee and Warren, 2001) and is thus related to cronyism and its negative consequences, which include lower job satisfaction, organizational commitment, organizational performance, overall morale, higher ingratiation, and organizational inertia (Khatri and Tsang 2003).

Guanxi is pervasive and all-inclusive in Chinese society, and is regarded as one of the most important factors determining the success of doing business in China (Kao 1993; Yeung & Tung 1996; Abramson and Ai 1999; Seligman 1999; Vanhonacker 2004) with Seligman (1999) comparing guanxi to grease for the wheels of China. The cultivation of guanxi is an integral part of doing business in China with Yeung and Tung (1996) pointing out that in Confucian societies “who you know is more important than what you know” and Vanhonacker (2004, 49) stating that “Guanxi is part of the fabric of Chinese society. Guanxi in organizational contexts refers to a network of informal interpersonal relationships and favor exchanges that are established for the purpose of conducting business activities throughout China and East Asia (Lovett et al. 1999).

To date organizational guanxi networks have been explored in theory and empirical research through the construct of supervisor subordinate guanxi (SSG). However, SSG fails to encompass the totality of guanxi relationships in organizations because it focusses exclusively on the relationship between a supervisor and subordinate ignoring broader guanxi networks in organizations. These complex interactions influence outcomes in Chinese organizations and require investigation. Thus we propose a new construct of Leader Follower Guanxi (LFG) to explicate how cronyism functions in Chinese management.

We define LFG as *the existence of direct particularistic (in-group) ties associated with a particular set of differentiated behavioral obligations based on social norms between a leader and a follower in the same organization*. This definition draws on Yukl's (1989) conceptualization of a leader that emphasizes the leader's role in influencing of others. Consistent with this definition we posit that in LFG a "leader" refers to someone who has a higher rank than a subordinate in the same organization and influences a supervisor to make favorable decisions concerning a subordinate. A leader might be the supervisor of the subordinate, a supervisor's leader, or a leader equal to his/her supervisor in terms of rank in the same organization; hence SSG is one specific form of LFG. Based on prior work (Hu 1944; Bedford 2011; Qi 2011) that has used constructs from face theory to explore guanxi-building in the workplace we show how a leader uses his/her power and status (*mianzi*) or moral reputation (*lian*) to influence other actors in a network to favor a subordinate. In this way we are able to illustrate how LFG functions in guanxi networks.

The purpose of our manuscript is to make a contribution by extending guanxi theory to provide more explanatory power for the phenomenon of cronyism in relational collectivist cultures in general and China in particular. To do this we introduce a more comprehensive guanxi model of LFG by distinguishing LFG from SSG; linking LFG to cronyism; and illustrating how LFG engenders cronyism in terms of Chinese face theory (*mianzi* and *lian*). Finally, this paper will propose how human resource (HR) management practices can curb cronyism in Chinese organizations.

Guanxi in Chinese organizations

Benefits of being included in a guanxi network include obtaining information on government policies, market trends and business opportunities. Further, guanxi social networks improve efficiency by reducing transaction costs (Zhang and Zhang 2006; Bedford 2011). However, guanxi has serious negative consequences for outgroups and society. Firstly, guanxi discriminates against people outside the guanxi network, which has consequences for individuals,

work groups and organizations. Thus guanxi has implications for Chinese organizations and foreigners who need to be integrated into the guanxi system to be able to do business in China. In particular, Leung, Heung and Wong (2008) propose a model of how a foreign business person is converted from a new friend to an old friend of his/her Chinese counterpart through a guanxi adaptation mechanism that allows them to become an insider and gain ingroup benefits.

Secondly, guanxi is characterized by favors and special treatment from those in power. In this regard, guanxi practice is inherently corruptive because this special treatment, whilst often legal, is questionable in moral and ethical terms (Fan 2002; Hwang et al. 2009). Though guanxi may not necessarily lead to cronyism, Chen and Chen (2009) contend that organizational members are more likely to engage in favor exchanges with close than with non-close guanxi parties as emotional attachment and obligations are stronger for the former than the latter. In addition, Nie and Lämsä (2015) argued if positive guanxi is dominated by self-seeking opportunism, then an ethically justifiable guanxi network will easily become negative.

HR decisions (i.e., in recruiting, promotions, bonus distribution, task allocations, and performance appraisals) that are based on guanxi relationships have been found to be negatively related to employee job performance ((Chen, Chen and Xin 2004); Yang 2014). Chen and Tjosvold (2007) argued that employees that have close guanxi with their specific managers will become allied with each other, and as a consequence will benefit from job assignments and promotions given to them by their managers. Third,. Chen and Chen (2009) argued that favor exchanges between close guanxi parties within an organization may negatively affect the welfare of the organization as well as other non-guanxi parties.

Supervisor-Subordinate Guanxi defined as a “*personal relationship between a supervisor and a subordinate developed largely from non-work related social interactions both inside and outside working hours*” (Cheung et al. 2009 79) may also be **limited**. SSG is unique in terms of social exchange theory (Emerson, 1976) and can be distinguished from other popular constructs in this area such as Leader-Member Exchange (LMX; Graen and Uhl-bien 1995). Whilst LMX focuses on social or economic workplace exchanges in dyadic supervisor-subordinate

work-related exchanges (Law et al., 2000; Aryee and Chen, 2006), SSG focuses on social relationships outside of work which influence work-related exchanges. In support of this, SSG has been associated with cronyism (Law et al. 2000; Bozionelos and Wang 2007; Wei et al. 2010). For example, SSG has been found to influence Chinese supervisors' decisions on subordinates' promotion and bonus allocation (Law et al. 2000).

In Chinese management, guanxi cronyism often encompasses a network of actors including a supervisor, a subordinate, a third party (termed "leader" in this article) who has a higher rank than a subordinate in the same organization, and possibly an intermediary between a leader and a supervisor in the same organization when a leader does not have close guanxi with the supervisor. SSG leaves the question of how a subordinate is indirectly favored by a leader who is not his/her supervisor unanswered because of its narrow focus on the supervisor-subordinate dyad. This means it cannot explain the extent of cronyism in Chinese organizations which is frequently driven by indirect social exchanges (Molm 1997) based on close and distant guanxi network ties. Close guanxi is defined as network ties that are located in the most inner circle of a guanxi network that are characterized by high levels of sentiment and obligation whilst distant guanxi ties are located at the periphery of a network and carry relatively low levels of sentiment and obligation (Chen and Chen 2004). Indirect reciprocity means the provision of aid from one person to another is returned by another member of the community, but not by the original recipient of the help (Goldstein et al. 2011). When there is close guanxi between a leader and a subordinate and distant guanxi between the subordinate and supervisor, there is indirect reciprocity between the subordinate and supervisor i.e. a benefit received by a subordinate from a supervisor is not reciprocated directly but indirectly through gift giving from the subordinate to a leader in the network who has facilitated the benefits they have received from the supervisor. Eventually, the supervisor will receive a "return" on his cronyism to the subordinate from the leader, but normally not from the subordinate.

Cronyism in relational collectivist cultures

Favoritism has been defined as the act of favoring friends, family and others who are close and trusted at the expense of public interests. In this way it is a misuse of public responsibilities and a corrupted distribution of public resources (Luo 2004). Cronyism is defined as *a reciprocal exchange transaction where one party shows favor to another based on their shared membership in a social network at the expense of outgroup members who have an equal or superior claim to the valued resource* (Khatri, Tsang and Begley 2006, 62). Though cronyism encompasses favouritism, it focusses on favoritism in the context of reciprocal relationships in a social exchange network. Nepotism has a narrower scope than cronyism, as nepotism includes only preference based on family membership, excluding preference based on other types of personal connection, such as acquaintances or friends (Padgett et al. 2015).

Khatri and Tsang (2003) assert that cronyism negatively affects job satisfaction, organizational commitment, organizational performance and overall morale, but positively affects the negative behaviors of ingratiation and organizational inertia. Several scholars argue that cronyism is contrary to distributive justice, which applies objective criteria in allocating rewards, thus promoting equality and avoiding favoritism (Khatri and Tsang 2003; Melé 2009; Pelletier and Bligh 2008). Through a survey of 76 employees in a southern California government agency, Pelletier and Bligh (2008) found that employees' perceptions of cronyism were articulated as top leaders giving preferential treatment to ingroup members. Preferential treatment was perceived by respondents as perks given to employees simply because they were family members of the ingroup, or were members of the top leader's "entourage". Respondents also perceived inequity in hiring and promotion practices based on cronyism. Favoritism of ingroup members during the personnel selection and promotion processes manifested as leaders knowing in advance who they wanted to hire or promote which led them to influence the outcome of interviews through position power.

Further, Khatri et al. (2006) propose cronyism raises societal costs by creating inefficiencies from unfair competition, reducing trust in societal institutions, and encouraging narrow self-interest among citizens. Thus, cronyism violates utilitarian ethics by failing the requirement

that an act should lead to the greatest good for the greatest number (Dunfee and Warren 2001; Fan 2002) because decisions are not made on the basis of merit but on favor and loyalty (Husted 1999; Khatri et al. 2006). Cronyism has been identified in both individualistic and collectivist cultures (Adler 2002; Khatri et al. 2006; Davis and Ruhe 2003). For example, individualistic cultures may also be influenced by the quality of their relationships with others, favoring likeability over ability in work partners (Casciaro & Lobo, 2005).

However, it should be noted that the individualism-collectivism distinction has received criticisms on both conceptual and methodological grounds. One main criticism is that these constructs tend to be defined and assessed in overly broad and diffuse ways, and have been described as being conceptually “fuzzy” (Earley and Gibson 1998), “over freighted” (Bond 2002), “not valid” (Fijneman, Willemsen and Poortinga 1995; Fiske 2002), and a “catchall” to represent all possible forms of cultural differences (Bond 2002; Earley and Gibson 1998; Triandis 1994).

Hui and Triandis (1986) argued that individualistic and collectivistic attitudes may differ in relation to the targets of interpersonal concern. A person may be characteristically individualistic if surrounded by acquaintances or strangers but extremely collectivistic among his or her family and close relatives. Many researches of the construct acknowledge the multidimensionality of the attitudes, values, and practices that compose individualism and collectivism and the development of more refined measurements to capture each unique dimension separately is needed (Bond 2002; Fiske 2002; Oyserman et al. 2002; Triandis et al. 1986; Triandis and Gelfand 1998). To clarify and expand the individualism-collectivism distinction, a new model of individualism and collectivism comprising individualism, group collectivism, and relational collectivism was developed based on Brewer and Gardner’s (1996) conceptualization of individual, relational, and collective selves and their manifestation in self-representations, beliefs and values (Brewer and Chen 2007).

Group cognition and behavior differ across cultures in so much that people in individualistic cultures and collectivist cultures perceive groups differently (Yuki 2003; Tajfel and Turner 1979).

Western individualistic cultures (e.g. United States) and collectivist East Asian cultures (e.g. China) differ in their social orientation with the former distinguishing between ingroups and outgroups through depersonalized social categorization (group collectivism) and the latter through the maintenance of relational harmony and cohesion within groups (relational collectivism) (Brewer and Chen 2007).

Further, individualistic cultures, such as Western Europe and North America, define the self as autonomous and independent from the collective. Based on this identity personal goals are given priority over the goals of collectives; social behavior is shaped by perceived consequences; and perceived profit and loss from social behavior is computed, and when a relationship is too costly it is dropped (Hui and Triandis 1986; Triandis 1996). These cultures engage in group collectivism which emphasises depersonalized relationships with others based on common membership in a symbolic group (Yuki et al. 2005). In contrast, relational collectivist cultures, such as Asia and Africa, the self is defined as an aspect of a collective (e.g., family or tribe). This means that personal goals are subordinated to the goals of the collective and norms, duties, and obligations regulate most social behavior (Triandis 1993; 1994; 1995). Relational collectivists have a personalized worldview that involves understanding and appreciation of webs of relationships within and among social networks. Compared with their counterparts in individualistic cultures managers in relational collectivist cultures are more willing to place the interests of relational others ahead of those of their organization when faced with a conflict between the two (Brewer and Chen 2007). In support of the distinction between Western group collectivism and Asian relational collectivism research by Yuki et al. (2005) found that Americans trusted strangers based on their common group category membership whilst Japanese trust was based on whether there was a common relationship link independent of categorical group boundaries.

Ingroup favoritism refers to the tendency for people to evaluate their ingroups more favorably than outgroups (Chen, Katz and Brockner 1998). Since members feel obliged to take care of one another, they feel duty-bound to allocate rewards more generously to ingroup than

outgroup members (Leung and Bond 1984). People make ingroup/outgroup distinctions in both individualistic and collectivistic cultures (Turner, Sachdev and Hogg 1983) and ingroup favoritism exists in both individualistic and collectivist cultures. For instance, experimental studies have found no average cultural difference in ingroup favoritism between Chinese and American participants (Chen, Katz and Brockner 1998; Chen, Brockner and Chen 2002). However, we propose that the nature of ingroups and of favoritism towards ingroup members varies based on culture.

In relational collectivistic cultures, individuals tend to belong to a few select ingroups, such as families and friendship circles, and their relationship to these ingroups tends to be stable over time. Conversely, in individualistic cultures, individuals belong to many ingroups that have less clear and stable membership (Brewer and Chen 2007) and group favoritism is based on desire to benefit the ingroup as a whole rather than on reciprocal favors between individuals in the ingroup (Perreault and Bourhis 1998).

We propose that relational collectivism facilitates and maintains guanxi networks, which emphasizes particularistic ties and favored exchanges between two or more individuals in an ingroup. These networks engender guanxi obligations which determine appropriate behaviors towards members of the guanxi network (Don and Dawes 2005; Wong, Ngo and Wong 2003; Mao, Peng and Wong 2012). These behavioral obligations are differentiated based on the nature of the guanxi ties (i.e. family, familiar, stranger ties). For example, family ties are unconditional and almost impossible to break; familiar ties are weaker and more conditional; and there is little obligation to stranger ties which are characterized by instrumentality without affection (Tsui and Farh 1997).

Guanxi ties also take precedence over organizational ties and obligations facilitating cronyism, despite policies and procedures that may be put in place to combat this behavior. In China the notion of ingroup or “my own people” includes individuals with whom one has guanxi ties, not the institution to which one belongs (Chen, Chen and Xin 2004) and guanxi has been linked to favoritism with guanxi facilitating particularized trust with a guanxi member who

provides a favor rather than generalized trust in an organization (Chen and Chen 2009).

Guanxi in relational collectivist cultures can be traced to the relation-based, hierarchical Confucian society which had family at its core and organized other collectives on the familial model (King 1991; Hwang et al. 2009). In this society family or friendship ingroup ties took precedence over other relationships in Chinese society. The Confucian philosophy valued group harmony and respect for power and authority in the form of filial piety to parents and devotion to superiors (Chen et al. 2009). This Confucian legacy engenders attitudes that promote cronyism or the granting of favors based on guanxi ties rather than on objective performance. For example, outgroup employees may accept inequity and be less likely to speak against their supervisor's favor towards a co-worker at their expense because they respect their supervisor's authority and wish to maintain work group harmony. We propose that shared values of favoring guanxi network members, respect for power and authority, and maintaining group harmony promote the acceptance of cronyism in relational collectivist cultures such as China.

The relationship between SSG and cronyism

Guanxi has been indirectly linked to cronyism in theory and research on SSG. Specifically, cronyism is briefly discussed in the literature on SSG with Law et al. (2000) finding that SSG affects the Chinese supervisor's administrative decisions. When a subordinate has close guanxi with a Chinese supervisor, the supervisor has a greater tendency to favor that subordinate through higher bonuses, better opportunities for promotion, and more favorable performance appraisals, task assignments, etc. (Law et al. 2000; Bozionelos and Wang 2007). In support of this, Wei et al. (2010) found that in the Chinese organizational context, SSG is positively associated with the career advancement of the subordinate. This implies that Chinese managers use SSG rather than objective criteria as the dominant factor to evaluate and promote employees and thus favor the subordinates who have close guanxi with their supervisors. Cheung and Wu (2011) found that the positive relationships between effective participatory management and organizational commitment and organizational citizenship behavior are stronger with high rather than with low

quality supervisor–subordinate guanxi. Cronyism is a consequence of the “the dark side” or unethical aspect of guanxi where a supervisor shows favor to a subordinate based on their guanxi at the expense of another more deserving subordinate (Fan 2002).

Other research demonstrates that subordinates are aware of the benefits that SSG bestows. After interviewing 60 Chinese employees, Zhang, Deng and Wang (2014) found evidence that most respondents attached importance to building SSG. Their motives for building SSG spanned a wide range of issues, from personal benefits to other-oriented and organizational concerns. In particular, they explored subordinates’ and supervisors’ motives for building SSG. Their findings show that subordinates build SSG based on job concern (81% of respondents) and personal benefit (65.5% of respondents). In terms of job concern, a few respondents anticipated that SSG would help them to win support from their supervisors, and they would be in a favorable position when their supervisors allocated resources. Finally, many respondents said that they expected that developing SSG with their supervisors would benefit them in terms of their opportunity to be recognized, get a pay increase, and receive an annual bonus. They agreed that their supervisors exercised a substantial impact on their career advancement as well as their compensation and benefits. Zhang, Deng and Wang (2014) illustrate this with a quotation from a male employee in a privately owned medical equipment company in China who said that “Strong guanxi with supervisor no doubt will bring more opportunities to demonstrate my abilities, which may further create more opportunities and possibilities for career advancement and pay increase”. Supervisors’ motives for building SSG mainly revolved around organizational concerns such as team cohesion, organizational goal achievement, team performance (80% of respondents), and job concern (56.4% of respondents). Additionally, Zhang et al. (2016) developed a scale of SSG motive that has four types of the overall motive for building SSG, including career advancement, team concern, personal life, and impression management.

It is also possible that a subordinate is favored by a leader in the same organization who is not their supervisor. This leader may influence a supervisor directly or indirectly to favor a subordinate due to their close guanxi with the subordinate. In interviews with Chinese managers,

Bozionelos and Wang (2007) found that guanxi was acknowledged as a factor that affected performance evaluations. Managers revealed that they had to take into account the guanxi of the subordinate when they conducted performance appraisals. Bozionelos and Wang (2007) also found that subordinates' guanxi with their boss, top level managers, or even important outsiders was implicitly or explicitly exerting its influence, which made their task in performance appraisal very difficult.

LFG: A new construct in Chinese management

The application of guanxi to Chinese organizations through SSG has been criticized for being too simple to explain the complex interpersonal relationships that exist between various actors in an organization. **In particular, Law et al. (2000) propose that SSG is limited in its scope because it focuses only on the direct, linear interpersonal interactions between a supervisor and subordinate and is unable to explain how networks of interpersonal relationships impact on a supervisor's administrative decisions regarding the allocation of promotion and bonuses. We argue that LFG provides a more comprehensive framework to better explain the salience and impact of interpersonal relationships in Chinese organizations.** LFG differs from LMX for the same reason in that LMX refers to the relationship between a subordinate and supervisor rather than the relationship between a supervisor and a leader that influences a supervisor and subordinate. Also as guanxi bases are the foundation of the relationships between parties (Chen and Chen 2004) LFG differs from general working relationships or a high LMX relationship. For example, high LFG involves the strongest guanxi ties which are based on the kinship between a leader and a follower in the same organization.

LFG recognizes the existence of a dyadic relationship between any leader and any employee with guanxi behavioral obligations between them in the same organization. In LFG, a "leader" refers to someone who has a higher rank than a subordinate in the same organization and influences the supervisor to make favorable decisions concerning the subordinate. In this sense, LFG is more likely to engender cronyism than SSG which involves only one supervisor. LFG

may involve numerous leaders in the same organization which extends the possibility of guanxi engendering cronyism through many relationships. **LFG extends the theoretical construct of SSG by exploring how a third party or ‘leader’ intervention may impact on the direct interpersonal relationship between a supervisor and subordinate. LFG is not just a network of dyadic SSG relationships, and it includes indirect as well as direct relationships.**

Despite this LFG remains specific to leaders and followers depending on the guanxi ties of both parties. Such guanxi ties are preordained (such as kinship) or are either activated or constructed voluntarily by individuals (as is the case with friendships). Thus, LFG may be based on three kinds of guanxi ties: strong ties, weak ties, and no ties. The distinction of guanxi ties may enable the operationalization (and subsequent measurement) of the LFG construct. In particular, as Confucianism is family-centered, strong ties refer to kinship and could be coded as high LFG (e.g., 2). Weak ties include friends, former classmates, former colleagues, fellow-townsmen, former teacher-student relationships, and former neighbors and thus may be coded as low LFG (e.g., 1). We propose that weak ties always be coded as lower LFG than LFG with family ties regardless of the number of ties because kinship ties dominate in China. Finally, we propose that the absence of network ties negates the presence of LFG (e.g., be coded as 0 in empirical studies). We also propose that the LFG researcher will need to consider the characteristics of a leader in the guanxi network (i.e., their *lian* and *mianzi*) in addition to the strength of the leader’s ties to the supervisor and subordinate and this will be discussed later.

LFG can pose a dilemma for a supervisor who has a subordinate with high LFG (i.e, strong kinship ties with a leader who has power, status and reputation). Bozionelos and Wang (2007, 295) illustrate this with one of their interviews where a manager complained saying “I feel very uncomfortable when I have to balance guanxi and individual job performance, especially when I have to assess a subordinate who performed unsatisfactorily but possesses good guanxi, say, with the boss, top level managers or even important outsiders. I may give him/her a satisfactory rating so long as he/she did not perform extremely poorly”. In addition to this, another manger noted that his relationship with a senior manager had been spoiled when he gave a low performance

rating to that senior manager's nephew. Still another manager noted that: "A low rating would not only make the subordinate feel displeased, but it might also offend high-level managers because they are relatives or confidants of his/hers" (Bonzionelos and Wang 2007, 296). Thus we propose that LFG is more likely to explain cronyism in Chinese organizations than SSG.

How LFG engenders cronyism

To explain how LFG engenders cronyism in Chinese organizations we use the Chinese concepts of "face" (*mianzi* and *lian*). As discussed earlier, while people in Western individualistic cultures tend to place emphasis on the categorical distinction between ingroups and outgroups, people in relational collectivist cultures tend to perceive groups as primarily relationship-based and emphasize the maintenance of relational harmony and promotion of cohesion within groups (Brewer and Chen 2007). In addition, it has been suggested that Chinese society's concern for face serves to regulate perceptions of appropriate social behavior in China, maintaining social harmony (Lau and Wong 2008). We have demonstrated that cronyism is always directed to an ingroup member, and the favored member reciprocates with benefits desired by the favor giver, which maintains ingroup harmony and cohesion. Based on the importance of face and its role regulating social relationships in China we use Chinese face Theory (Hu 1944) to explore cronyism in Chinese organizations.

Hwang, Francesco and Kessler (2003, 74) define face as "the image that people strive to maintain before others in pursuit of recognition and inclusion". The concept of face is universally acknowledged with Lau and Wong (2008) and Brown and Levinson (1987) proposing that no culture other than China places so much value on face in social interaction. Wang and Murphy (2010) and Qi (2011) argue that the Chinese socially anchor self in the gaze of others. Understanding this is important to doing business in China with Goffman (1967) suggesting that when Westerner's understand face, cultural distance is bridged.

The Chinese concept of face has two component parts, namely *mianzi* and *lian* (Hu 1944). *Mianzi* stands for the kind of prestige that is emphasized in China which includes a reputation that is achieved by 'getting on in' life and through success and ostentation, including social status and wealth (Park and Luo 2001). This prestige is accumulated through personal effort or clever manoeuvring. Because strong *mianzi* is earned it allows an individual to take control of the dynamics in their social networks. *Lian* is the respect of the group for an individual with a good moral reputation. An individual with *Lian* will fulfil his obligations regardless of the hardships involved and shows himself to be a decent human being under all circumstances. If an individual in China loses his *lian* he will not be able to function effectively within the community because *lian*'s function is to enforce moral standards through social and internalized sanction (Bedford 2011).

Bedford (2011) used the concepts of *mianzi* and *lian* to explore guanxi-building in the workplace. He concludes that *mianzi* (prestige) conveys power in a guanxi channel and *lian* (respect) builds a foundation for mutual trust and emotional engagement. The status/power differential based on these criteria serve as a guanxi magnet inducing others' desire to develop guanxi with an individual (Wong et al. 2007). In a functioning guanxi relationship each follower must convince others of his/her credibility to move the relationship forward through his/her *lian*. For instance, if an employee fails to meet the deadline for task fulfillment, which jeopardizes group performance, she will lose her *lian* in front of other group members. If she loses her *lian* repeatedly, she will be estranged from other group members or even lose her membership in this group thereby being excluded from the guanxi network. *Lian* is particularly important during the guanxi development process when trust in the character of the target person is developed (Bedford 2011).

We assert that cronyism is usually in the 'shadows', or out of the public view, to avoid direct criticism from others and to maintain the *lian* (moral character) of a leader. Chen and Chen (2009) argue that favor exchanges in formal organizations tend to be kept in private "behind the closed door" or "through the back door". The secrecy surrounding favor exchanges in organizations suggests that they lack legitimacy according to the professed organizational norms of distributive

and procedural fairness. For example, if a leader uses her *mianzi* (prestige) to influence the HR department to recruit her nephew, she will intentionally request the HR department to place the nephew in a department other than hers to cover up their kinship. Nevertheless, she may secretly favor her nephew by influencing the supervisor to favor him in terms of task allocation, bonus and salary, performance appraisal and promotion. It is, therefore, proposed that LFG dyads are the root of cronyism in Chinese management. Thus, we need to fully elucidate how LFG engenders cronyism in Chinese organizations to propose effective measures to check the negative effects associated with cronyism.

In order to illustrate how the LFG network functions in cronyism, we divide the concept of leader into two categories. In the first, the leader has a higher rank than the supervisor and in the second the leader shares the same rank as the supervisor. If a leader has close *guanxi* with the supervisor, he will contact the supervisor directly to ask him to favor the subordinate who has close *guanxi* with him, otherwise he will use an intermediary (usually in the same organization) to send a message to the supervisor. We will show how a leader engenders cronyism using his/her *mianzi* and *lian* to influence a supervisor directly and indirectly through an intermediary. Some scholars (Hu 1944, Ho 1976, Qi 2011) have recognized that *mianzi* and *lian* are not entirely independent concepts and can be used interchangeably in some situations. Ho (1976) proposes that a person who has *mianzi* need not have authority (at least not formal authority). *Mianzi* rests on achieved status through personal qualities and ascribed status derived from nonpersonal factors, such as wealth, social connections, and authority. Though a person with lower status may use his *mianzi*, based on achieved status, to ask for a favor from another person with higher status, not many people from lower status can use their *mianzi* to influence people from higher status (Ho 1976, Bedford 2011). Thus, we propose that in organizations *mianzi* is usually given to a person with higher social status and more power, and *lian* is usually earned by someone who has the same or even lower social status and less power. Based on this we propose that a person with higher social status and more power will use *mianzi* rather than *lian* for his/her *guanxi* development and favor exchange. For a person with the same or lower social status and less

power, the impact of their *mianzi* is insignificant to their guanxi development and favor exchange compared with their *lian*. Consequently, our theory shows only one component of face that has a significant impact on guanxi building and favor exchange. For example, when the leader has a higher rank than a supervisor, the leader uses *mianzi* to influence the supervisor to favor a subordinate who has close guanxi with him/her. Favor returns are more likely to go to close guanxi individuals (Chen and Chen 2009) thus the subordinate reciprocates the favoritism of the leader through personal affect, loyalty, and gift giving to the leader not the supervisor, knowing that it is the leader that has arranged for the supervisor to favor him. This is based on the principle of *renqing* or reciprocity.

In summary, *mianzi* conveys power in a guanxi channel and *lian* builds a foundation for mutual trust and emotional engagement. Thus *mianzi* is usually given to a person with higher social status and more power, and *lian* is usually earned by someone who has the same or even lower social status and less power. Based on *mianzi* and *lian* theory we present Figure 1 to demonstrate how LFG engenders cronyism. We then present 10 illustrations of how LFG operates in different network configurations.

Insert Figure 1 here

LFG network 1: leader with higher rank than supervisor (no intermediary)

For example, a senior manager who wants to favor a subordinate who is his niece will influence her supervisor to favor her through his *mianzi* or prestige because he has a more senior rank than her supervisor. In this case, the subordinate who has kinship with the leader will reciprocate by giving the leader more positive affect and loyalty.

We demonstrate how an intermediary functions in LFG theory in LFG network 2 to 6 when a leader has higher rank than supervisor. In this case a leader uses an intermediary to send a message to a supervisor when a leader does not have close guanxi with the supervisor and is unable to contact him directly to ask that a favor be given to his subordinate who has close guanxi with the leader.

LFG network 2: intermediary with a lower rank than the leader, but a higher rank than the supervisor

For example, a Vice President (VP) will use his *mianzi* to influence a Sales Manager (intermediary) who uses his *mianzi* to enable the supervisor to favor the subordinate who is a former classmate of the VP.

LFG network 3: intermediary with lower rank than leader and the same rank as supervisor

For example, a Chief-Financial-Officer (CFO) will use his *mianzi* to influence a Financial Manager (intermediary) who uses his *lian* to enable the R & D manager (the supervisor) to favor the subordinate who is a former colleague of the CFO.

LFG network 4: intermediary with lower rank than supervisor and leader

For example, the Chief-Operating-Officer (COO) will use her *mianzi* to influence an employee (intermediary) who is a subordinate of the supervisor and uses her *lian* to enable the supervisor to favor another subordinate who is a former student of COO.

LFG network 5: intermediary with the same rank as leader

For example, a Sales Manager will use her *lian* to influence a Financial Manager (intermediary) who uses his *mianzi* to enable a group leader in the financial department (supervisor) to favor a subordinate who is a friend of the Sales Manager.

LFG network 6: intermediary with higher rank than leader

For example, when a Research & Development (R & D) Manager has a close *guanxi* with the CEO, he will use his *lian* to influence the CEO who uses his *mianzi* to enable the supervisor to favor the subordinate who is a former army comrade of R & D Manager.

The following LFG networks demonstrate how LFG engenders cronyism when the leader has the same rank as the supervisor.

LFG network 7: Leader with same rank as supervisor and no intermediary

For example, a COO will use her *lian* to influence the CFO to favor a Financial Manager (subordinate) who is a former neighbor of the COO.

LFG network 8: intermediary with higher rank than leader and supervisor

For example, a Financial Manager will use her *lian* to influence the CFO (intermediary) who uses his *mianzi* to enable the Human Resource (HR) Manager to favor the subordinate who comes from the same hometown as the Financial Manager.

LFG network 9: intermediary with same rank as leader and supervisor

For example, the R & D Manager will use his *lian* to influence the H. R. Manager (intermediary) who has close *guanxi* with the Sales Manager and also uses his *lian* to enable the Sales Manager to favor the subordinate who is a distant relative of the R & D manager.

LFG network 10: intermediary with lower rank than leader and supervisor

For example, a Sales Manager will use her *mianzi* to influence an employee (intermediary) who is her subordinate and this employee will use his *lian* to enable the H. R. Manager to favor another subordinate who is a friend of the Sales Manager.

In summary, in a relationship between a leader and intermediary or between an intermediary and supervisor in the same organization, the former (actor) will use her *mianzi* to influence the latter (target) to act when they have greater power and higher status (*mianzi*). When an actor has the same power and status as a target, or even less power and lower status than the target, the actor will use his *lian* to influence the target to act. The target will usually trust the actor's *lian*

based on the rule of *renqing*, or *reciprocity*, expecting that they may receive the actor's favor one day. In this way LFG facilitates cronyism in Chinese organizations.

Discussion

Theoretical contribution

The purpose of this study is to extend guanxi theory to better explain cronyism and its consequences in Chinese organizations. By doing this, we make theoretical contributions to both guanxi and cronyism theory, and also make practical suggestions for Chinese companies to prevent the negative consequences of cronyism. The first contribution of this paper is the extension of guanxi theory in organizations by conceptualizing a new construct LFG. Extant guanxi theory has used SSG to explain the dyadic relationship between a supervisor and subordinate. We contend that SSG is not adequate to explain the full extent of cronyism in Chinese management and propose the construct of LFG to explain how cronyism is engendered in Chinese management. Guanxi not only exists between a supervisor and a subordinate, it may also exist between any leader and a subordinate in the same organization or even across organizational boundaries. We demonstrate that social relationships outside of work influence work related exchanges in a broad organizational network. More specifically, we show how a leader, supervisor, and intermediary are involved in social exchanges based on guanxi relationships.

The second contribution of this paper is the extension of theory on cronyism to include cross-cultural analysis. We extend existing cross-cultural frameworks on individualism and collectivism (Brewer and Chen 2007; Triandis 1993, 1994, 1995) through our theorizing on the cultural values of guanxi and Confucianism which encourage and obfuscate cronyism in China.

The third contribution of this paper is the identification of the relationship between LFG and cronyism, and thus we contribute to both the guanxi and cronyism literature. Previous studies have looked at the relationship between guanxi and cronyism in organizations in a limited way.

For instance, Law et al. (2000) discovered that SSG affects the Chinese supervisor's administrative decisions on subordinate promotion and bonus allocation and Bozionelos and Wang (2007) argue that favors are sometimes rendered indirectly to a subordinate by another leader in the same organization. We have built on these observations by building theory on why and how these indirect social exchanges may promote cronyism in Chinese organizations.

The final contribution of this paper is using Chinese “face” theory (*mianzi* and *lian*) to explicate how LFG engenders cronyism in Chinese organizations. We have proposed that face theory (*mianzi* and *lian*) is an explanatory mechanism of how organizational resources are used for the benefit of individuals connected through guanxi networks at the expense of outgroup and organizational interests. In order to illustrate how LFG functions in cronyism, we divided the leader into two categories: a leader having a higher rank than a supervisor and a leader having the same rank as a supervisor. For each category of leader in our study, we take situations with and without an intermediary into consideration, and analyze how each specific network causes cronyism by virtue of *mianzi* and *lian*. In doing so we link guanxi and cronyism to face theory for the first time.

Practical implications for Chinese organizations

China is a typical relational collectivist culture, in which the meaning of ingroups versus outgroups and the basis of psychological attachment to ingroups differ from that in individualistic and group collectivist cultures. These cultural values engender guanxi networks which together with a heritage of Confucianism promote cronyism in Chinese organizations. Our theory on the role of LFG in cronyism in Chinese management has significant implications for organizations in China and possibly other relational collectivist cultures in East Asia. Senior managers in Chinese organizations need to understand the unique process driving cronyism in their organizations. There are also implications for Westerners operating in these business contexts. Westerners doing business in China need to understand the nature and mechanisms of cronyism. In particular, Western organizations involved in mergers and acquisitions in China will need to understand the

antecedents and consequences of cronyism in Chinese organizations so they can better understand how to develop leadership and HR practices to prevent cronyism.

We have demonstrated that cronyism will have negative consequences for individuals and organization. In particular, cronyism damages employee trust and perceptions of justice (Melé 2009). In support of this, management is viewed as less trustworthy by employees when HR decisions are based on guanxi (Chen, Chen and Xin 2004). Also favor exchanges mean that organizational resources are used to benefit guanxi members rather than the organization (Chen and Chen 2009).

In response to these challenges we encourage Chinese organizations to take effective measures to combat cronyism and ensure that decisions are made on merit rather than the LFG network. We recommend that measures should include the introduction of formal HR practices in hiring, performance appraisal and promotion; an increase in HR decision making transparency; and the creation of an ethical climate through the introduction of ethical guidelines, processes, and programs. We discuss each of these in turn in this section.

Chen and Chen (2009) argue that the pressure to favor employees can be reduced if objective performance is the key decision criterion in HR functions such as selection, appraisal, and promotion. To discourage managers making hiring decisions based on their guanxi networks Chinese organizations can use modern HR tools (i.e. assessment center processes and 360 degree feedback) and more scientific and formal selection tests (i.e. aptitude tests, psychomotor tests, job knowledge and proficiency tests, interest tests, and personality tests) which remove a manager's subjectivity (Rue and Byars 2011). For example, when a supervisor recruits someone for a position in his department he will be most likely to recruit someone in his guanxi network even though not transparently saying so. This process is influenced by SSG, however, as indicated by LFG theory a leader may also influence a supervisor to select a candidate who is in her guanxi network. Such cronyism is likely to be implemented in an indirect way, particularly if the supervisor is the most senior person on the selection panel. This may be circumvented if more objective data is available on each candidate and this data is included in a transparent and

systematic selection process. Such a process may be implemented by getting each person on the selection panel to rate each candidate independently against the selection criteria which are then collated by an independent assistant who provides a transparent report. In this revised process the *guanxi* ties of the leader and his/her *mianzi* and *lian* do not come into play.

Further, assessment centers using teams of trained assessors to rate a candidate's observed performance against predetermined standards place less weight on supervisor ratings (Alexander, Buck and McCarthy 1975). Multisource feedback (e.g. 360-degree) to make bonus allocations and promotion decisions based upon an objective performance appraisal of employees can also overcome subjective assessments (Carlson 1998). In addition to this, selection processes can use board or panel interviews where two or more people conduct an interview with one applicant or HR consultants can be used as interviewers to objectify assessment decisions. For example, if a supervisor is the main assessor of his subordinates' performance, she is likely to be influenced by the LFG network. In this case she will use performance appraisal subjectivity to favor a subordinate who has close *guanxi* with a leader of rank in the same company. This is most likely to happen when a supervisor is the only assessor in the performance appraisal process for her subordinates and is vulnerable to *guanxi* favoritism. If more assessors, particularly HR consultants from outside of an organization, are invited into the performance appraisal process such subjectivity and bias against outgroup members will be minimized.

The transparency of HR decision making may also curtail *guanxi* favoritism (Chen and Chen 2009). Public knowledge and scrutiny of HR decisions would require justification of decision standards and motivate decision makers towards social responsibility and fairness (Orbell et al. 1988). We recommend that Chinese organizations are transparent about who has made HR decisions, on what criteria these decisions were made, and the decision making processes that were used. This may be implemented through HR reporting mechanisms which are becoming easier and less bureaucratic with HR technology systems such as SAP which enable time effective HR analytic auditing processes.

We also believe that Chinese organizations can promote an ethical climate that reduces cronyism. Firstly, organizations could implement ethics programs targeted at leaders. Through a qualitative analysis, Pelletier and Bligh (2008) discovered that almost half of the references to the ethical climate of the organization included attributions to the organization's top leaders. This indicates that highly visible leadership training could facilitate a climate in which ethical decision making and behaviors are both expected and rewarded. Training curriculum could include a 'sensitivity training' component so leaders are made aware of how decisions based on cronyism are perceived by outgroup members (Pelletier and Bligh 2008). In addition to this, organizations could develop ethical guidelines for dealing with guanxi related conflict of interest (Chen and Chen 2009). For instance, companies may stipulate policies regarding the appropriateness of cronyism towards guanxi members including family, relatives, country fellows, and classmates. Organization for example can communicate basic criteria for appointment and promotion of all employees which are based on appropriate qualifications and performance. The intent of such policy would be to emphasize that selection of personnel should be based on job-related criteria. In addition, company policies may state that family members are forbidden to participate in a selection or assessment panel to prevent guanxi favoritism in selection and performance decisions.

Other measures are also possible. For instance, organizations may stipulate policies limiting gift giving and gift acceptance. Second, organizations should enforce ethical standards through monitoring and sanctioning systems to ensure ethical rhetoric is translated into ethical practices (Yamagishi 1986). Third, organizational ethics processes can also establish a means for leaders and employees to voice their ethical concerns. These may include ethics hot lines or email boxes. However, it is critical that organizations are committed to: investigating every complaint; ensuring the identity and employment of the complainant is protected; and following up with those who have voiced their concerns (Pelletier and Bligh 2008). Finally, we recommend that organizations are persistent in introducing these initiatives because guanxi network obligations

and loyalties transcend organizational obligations (Chen, Chen and Xin 2004; Chen and Chen 2009) making change difficult.

Limitations and future research

From the above analysis, we conclude that LFG is far more complicated than SSG, and may better explain the intricacy of cronyism in Chinese management. This is a pioneering study of LFG, which deserves more in-depth attention by scholars from the perspectives of guanxi, social networks, ethics, and cross-cultural fields. **We believe that the next steps include the development of an LFG construct measure to facilitate empirical studies in the future. Such a measure would need to incorporate the two dimensions of LFG that include the strength of ties (i.e., kinship vs friendship) and the face of the leader (i.e., *lian* and *mianzi*/rank).** In addition, social network scholars may use network methods to explore the network nature of cronyism in organizations.

Second, a model of LFG could be developed and empirically tested that includes both LFG antecedents and consequences for individuals and organizations. In particular, we have proposed that changes to HR practices may influence the operation of LFG and its associated consequences. This would require empirical testing to see how HR policies and practices could be introduced or modified.

Third, future studies may extend the scope of our model. In particular, studies on LFG and cronyism among different types of Chinese organizations would be valuable i.e., how does LFG vary in private-owned companies, state-owned companies, and joint ventures. Our cross-cultural analysis of cronyism could also be extended by obtaining data from other relational collectivist cultures such as Japan and Korea. We did not choose to theorize outside of a single organization but it is likely that outsiders from other organizations (government agency, supplier, client, or any organization having close ties with the focal organization) may attempt to exert influence on a supervisor to favor a subordinate that they have close guanxi with. In support of this, Bozionelos

and Wang (2007) indicated that important outsiders might cause workplace cronyism. Thus, future research could extend workplace cronyism from the intra-organizational level to the inter-organizational level. Our model also focused on vertical cronyism, or on a superior-subordinate relationship within an organization. However, based on the work of Khatri and Tsang (2003) we acknowledge that horizontal cronyism involving peers, such as business associates and friends in an intra- and inter-organizational network is possible, and could extend LFG theory in the future. In conclusion, we hope that this paper will stimulate more scholars to focus on LFG and its relationship with cronyism and uncover the intricacies of cronyism in and between organizations.

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FIGURE 1

How LFG engenders cronyism

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