

**Developing Knowledge Resources through Bridging Information Asymmetries in  
Network-Based Informal Labour Markets: A Study of Privately-owned Manufacturing  
Firms in China**

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## **Declaration of Authorship**

I, Wai Wai Ko hereby declare that this thesis and the work presented in it is entirely my own. Where I have consulted the work of others, this is always clearly stated.

Signed:

Date: **August 31, 2012**

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## ABSTRACT

The purpose of knowledge resource development is considered to be to generate and acquire the necessary knowledge for developing a firm's specific capability. In this research, I explore the patterns of knowledge resource development practice among privately-owned Chinese SME manufacturers in the informal network-based labour market. More specifically, this research focuses on exploring how privately-owned Chinese SME manufacturers attain skilled workers by bridging information asymmetries to improve both employers and employees' awareness of the skill availability in the informal labour markets that can usually be viewed as complex networked systems in the Chinese context. Through conducting an in-depth, qualitative study of 86 Chinese engineers, I identify three key aspects that explain the pattern of this phenomenon: (1) the informal rules existing within the social networks; (2) the employer's ability and strategy for acquiring skilled workers from the social networks; and (3) the skilled worker's (employee's) use of social networks to enhance employability and eventually contribute to the firm's knowledge resources. I develop an organizing framework for the process of knowledge resource development through social networks in the Chinese context to connect these three aspects. I found that, in Chinese society, the owner, senior managers and employees use *guanxi* (social capital in the Chinese context) to identify the individual workers, in their social network, who possess the specific skills, and encourage them to share their expertise and manpower with each other and the firm. The key contributions of this thesis are: (1) extending the current understanding of social networks by examining their application in the privately-owned Chinese manufacturing sector by providing a comprehensive picture of the way in which they develop knowledge resources through bridging information asymmetries in the network-based informal labour market; (2) identifying seven specific informal rules (namely, "anonymity", "*huibao*", "*lun*", "*liyì*", "*mianzi*", "*renqing*", and "integrated" rules) that have been widely used in guiding this labour matching process in the privately-owned Chinese SME manufacturing sector; (3) exploring how the owners and senior managers of privately-owned Chinese SME manufacturers use different dimensions of *guanxi* to gain advantages when engaging in recruitment practices through social networks to acquire skilled workers; (4) exploring the influences of different dimensions of *guanxi* with regard to job searching, job matching and compensation negotiating activities; and (5) extending the current understanding about connecting social capital and *guanxi* by providing a more detailed discussion of the connection between social capital and *guanxi*; developing *guanxi* specifications that link to specific dimensions of social capital, and using these connections to interpret the data. In general, this thesis explores Chinese firms' strategies for using social networks to attain skilled workers who contribute towards their knowledge of the resource development process. It also offers managerial insights for entrepreneurs who wish to enter the industry.

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# CHAPTER 1

## INTRODUCTION

### 1.1 Chapter Overview

The purpose of this thesis is to explore the patterns of knowledge resource development practice through bridging information asymmetries in network-based informal labour markets in the Chinese context and investigate the factors that explain these patterns. The knowledge resource development practice enables privately-owned Chinese SME manufacturers to become more competitive in the industry global value chain networks, that will ultimately improving their long term financial performance. Viewing knowledge as rooted in individuals, this study investigates three phenomena related to knowledge resource development practice in Chinese social and business situations, how *guanxi* (social capital in the Chinese context) governs individuals' collective actions with regard to skill availability information transfer within the network environment, how skilled workers reacquired by a firm through social networks, and how skilled workers use their informal ties to enhance their employability in the privately-owned Chinese SME manufacturing sector, that eventually contributes to the firm's knowledge resources, thus building a knowledge resource development framework in the Chinese context. This introductory chapter presents a general overview of the thesis. It outlines the research question and background of this thesis.

### 1.2 Research Objective

The purpose of knowledge resource development practice is to generate and acquire the necessary knowledge for developing a firm's capability. Following the view that knowledge primarily resides in individuals, in this research, I will investigate how privately-owned Chinese SME manufacturers overcome information asymmetries in network-based, informal

labour markets to improve both the employers and employees' awareness of the skill availability. According to Crouch (2005), this knowledge can be formed through social networks, depends on social interaction and consists of three aspects: (1) informal rules within the social networks that govern the skill availability, information transfer and labour matching process; (2) the employer's ability and strategy to acquire skilled workers from the social networks; and (3) the use by skilled workers of social networks to enhance their employability and contribute to their firm's knowledge resources (see chapters 2 and 3 for a detailed discussion). In this research, I will investigate each of these aspects within the privately-owned Chinese SME manufacturing industry.

Manufacturing firms in newly industrialized countries contribute substantially to their industry global supply chain networks (Lin, 2004). Many manufacturers perform not only production and physical distribution functions, but also design and engineering functions in the process of introducing new products and modifying the existing products world-wide. For a manufacturing firm to increase its capability in terms of research and development, it must be able to form new knowledge, which is often achieved by acquiring it from another individual or organization (Baranson, 1997; Brewer and Nollen, 1998; Zhao *et al.*, 2005). A study conducted by Reddy and Zhao (1990) suggests that many multinational enterprises are transferring their knowledge and research and development capabilities to their business partners in order to improve their competitiveness in the industry. To transfer knowledge across firms, it requires the substantial cultivation of inter-organizational relationships (Beamish, 1993; Child and Yan, 2001). These inter-organizational relationships that facilitate knowledge resource development practice are socially embedded and can generally be referred to as social networks as Brass *et al.* (1998, p. 17) define "*a social network as a set of actors and set of ties representing some relationships – or lack of relationship between the actors*". I also acknowledge that in some literature inter-organisational collaboration is

further divided into different typologies (i.e. strategic alliance, R&D consortia, for example) some of which are more formal than others (Ghoshal and Bartlett, 1990; Inkpen and Tsang, 2005). The term “social network” is used here to describe a wide range of interrelationship ties.

The inter-organizational relationships can be divided into horizontal, vertical and personal relationships (Ring and Van de Ven, 1994; Rindfleisch, 2000; Eng, 2009). The former can be described as a “*relationship with other entities on the same level or within the same industry and/or other product market, such as competitor or manufactures of the same product market*” (Eng, 2009, p. 509). In much of the literature, horizontal, inter-organizational relationships have been linked to faster growth (Baum *et al.*, 2000) and to the rapid mobilization of unique capabilities in cooperative relationships (Luo *et al.*, 2006). Vertical inter-organizational relationships include “*both upstream and downstream participants in a firm’s value chain that services a particular product market*” (Eng, 2009, p. 509). In the manufacturing industry, this relationship is often referred to as a buyer-supplier relationship. Lin (2004) suggests that the relationship between buyers and suppliers in the manufacturing industry has changed substantially over the past few decades. Rather than always seeking for the best price provider, well-known multinationals have been developing closer links with a few firms in order to exploit the relational rents derived from collaborating with these manufacturing service providers. Finally, a personal relationship is a “*social relationship between individuals that may converge with other inter-firm relationships or lead to the development of new business or economic opportunities*” (Eng, 2009, p. 509).

Although the literature has noted that emerging manufacturing firms are attempting to enhance their competitive advantage by seeking knowledge transfer and the joint creation of new knowledge through vertical and horizontal networking (Kogut and Zander, 1992; Porter and Sensenbrenner, 1993), however, when the concept of the social network relationship is

applied in the Chinese context, the personal relationship (or “*guanxi* contact”) plays a more important role in knowledge transfer and the mobility of skilled workers (Chen and Chen, 2004; Chen *et al.*, 2004; Lu *et al.*, 2008). For example, the study of the Chinese automotive industry conducted by Zhao *et al.* (2005), argues that the hands-on experience of the individual and his/her social network connections play an important role in the transfer of knowledge. However, this does not mean that both the horizontal and vertical inter-organizational relationship is unimportant for knowledge transfer among privately-owned Chinese SME manufacturers. For example, Zhao *et al.* (2009) also suggest that group embedded research and development capabilities typically require group-to-group contact in order to transfer knowledge. Besides, personal relationship can gradually grow into organization-based ones to stimulate both horizontal and vertical cooperation (Wright *et al.*, 2002). In this research, I will focus particularly on studying the role of personal relationships in facilitating the process of developing knowledge resources by bridging information asymmetries in network-based informal labour market.

In the current business environment, manufacturing firms that specialise in producing components and/or providing a business service for the brand vendors play an increasingly important role. Lin (2004) indicates that most of the manufacturing firms in the newly industrialized countries, such as Taiwan, Korea, China, and Thailand, specialize as world-wide manufacturing service providers and perform both production and product development functions in the industry global supply chain networks. Lin (2004, p. 944) further explains why cooperation between companies is so important for manufacturers as follows: “*the locus of business competition in today’s global economy is not individual integrated firms but industry networks composed of component suppliers, subsystem assemblers, system integrators, marketers, distributors, and other participants. Success or failure of a product*

*can affect all the participating firms in the networks*". The competition is taking place at the network level in the manufacturing industry rather than within individual companies.

This research aims to make several contributions. Firstly, although the impact of social networks in Chinese society had been recognized by management scholars (e.g. Jiang, 2005; Lee and Dawes, 2005; Buckley *et al.*, 2006; Fu *et al.*, 2006), however most of the researches in this area are related to either business strategy or organization dynamics. My research focuses on identifying the importance of social networks that allow the privately-owned Chinese manufacturer SMEs to bridge the information asymmetries in order to attain skilled workers in the network-based informal labour market that contributes towards knowledge resource development practice, but also provides a comprehensive picture of the pattern of activities that are taking place. The second contribution of the research concerns the identification of the informal rules that govern the knowledge resource development practice in the social network environment in the privately-owned Chinese SME manufacturing sector. Previous researches about the informal rules in Chinese society highlight the *guanxi* phenomenon (social capital in the Chinese context) among Chinese network actors (e.g. Lim and Bowers, 1991; Bond, 1996; Qing, 2008; Liao and Bond, 2011). In this research, I further extend this aspect by identifying specific informal rules that have been widely used to govern the skill availability, information transfer and labour matching process among employers and employees in Chinese society. Thirdly, my researches contribute to the current research on how SEMs overcome the liability of smallness (e.g. Barber *et al.*, 1999; Williamson, 2000; Leung, 2003; Cardon and Stevens, 2004) by further exploring how the privately-owned Chinese SME manufacturers use their *guanxi* to gain an advantage when engaging in recruitment practices through social networks to acquire skilled workers. Fourthly, earlier studies suggest that job referrals play an important role in Chinese business (e.g. Bian *et al.*, 1997; Cheung and Gui, 2006; Huang, 2008). In this research, I take a step further to explore

the role that *guanxi* plays in job referrals activities in the Chinese network-based informal labour market. Finally, field experts have long agreed that a close relationship exists between the western concept of social capital and Chinese notions of *guanxi* (e.g. Putnam, 2000; Park and Luo, 2001). Despite the fact that this connection has been widely used to interpret research findings related to Chinese business relationships, there have been no further studies about how these two frameworks are actually connected. In this research, I attempt to provide a more detailed discussion of the connections between social capital and *guanxi*, develop *guanxi* specifications linked with the specific dimension of social capital, and use these connections to help me to interpret my research findings. My research provides a new angle for future researchers who wish to perform heavy text-based data analysis, such as content analysis or meta-analysis, to study the impact of social capital on Chinese business.

### **1.3 The Chinese Manufacturing Industry and the Research Target**

Following a series of economic reforms post-1978, primarily supported by its manufacturing industry, the Chinese economy has experienced extensive growth. China has sustained economic growth for over two decades, with a gradual and uninterrupted economic transition (Boisot and Child, 1996; Tan, 2007). This economic liberation is attracting foreign investment in the Guangdong province, on the border of Hong Kong (Berger and Lester, 1997). The Pearl River Delta economic zone covers nine prefectures of the Guangdong Province: Guangzhou, Shenzhen, Zhuhai, Dongguan, Zhongshan, Foshan, Huizhou (only including Huizhou City, Huiyang, Huidong, and Boluo), Jiangmen and Zhaoqing (only including Zhaoqing City, Gaoyao and Sihui), and the Special Administrative Region of Hong Kong and Macau (Eng, 2009). It had a population of roughly 46 million people (Economist, 2012). The Pearl River Delta has been a gateway for foreign enterprises to enter the Chinese market and use it for assembly production for unfinished imported components to be re-

exported. It has become one of the most important manufacturing bases in the world. Many foreign funded companies and Hong Kong enterprises locate their factories and form clusters of firms in the Pearl River Delta (Eng and Spickett-Jones, 2009). This area has been the fastest growing economy region in mainland China and it provides an economic gateway for privately-owned Chinese SME manufacturers to deal with foreign multinationals.

According to Humphrey (2004) and Hobday (1995), there are three primary types of manufacturer in China: own equipment manufacturing (OEM), original design manufacturing (ODM), and own brand manufacturing (OBM). For OEM firms, their core business operation focuses on manufacturing components for subassembly in the production networks of a brand vendor who own the brand of the completed product. They usually have limited resources that lead to a disadvantaged bargaining position. The strength of the OEM firms lies in their capability routinely to produce a component in a repetitive pattern at a low cost (Nelson and Winter, 1982). In most cases, the OEM firms do not possess the resources or expertise related to design, marketing, and distribution. Instead, they centre their attention on manufacturing and production activities under the specifications of licensing contracts, as lay down by the brand vendor (Eng, 2009). As a result, the final product of an OEM firm could be a single entity or components/parts of a total product that is assembled and marketed by this brand vendor. This business model contributes substantially to the fast economic growth of the Pacific Rim economies as well as the world economy as a whole (Lin, 2004). The reasons why a brand vendor uses OEM firms as an outsourcing option are the rising costs of product development, the internationalization of the markets, and the shorter product life cycles (Helper, 1991; Lamming, 1993; Bruce *et al.*, 1995).

The core business for ODM firms is to design and be responsible for the majority of the production process of a product or a component/part, which could be for multiple brand vendors and under brand companies' product specifications (Eng and Spickett-Jones, 2009).

In comparison with OEM, “*ODM adds value to the business by acquiring design capabilities (such as product design, product innovation, technological research and development), either as a result of manufacture upgrade or direct industry entry*”; however “*ODM firms also do not possess expertise in branding and distribution and thus, rely on a brand vendor’s brand name and marketing channels to market their product designs and ideas*” (Eng, 2009, p. 509).

In other words, ODM firms not only passively produce the product or the component/part of the product according to the specifications laid down by the brand vendor, but work with brand vendors to improve the design of the product. The strength of the ODM firms can be described as having the production knowledge, product design capabilities, technical and/or technology capabilities and production and/or operational capabilities of a product. As a result, they can create business opportunities and establish multiple buyer-supplier relationships with large or established firms.

OEM firms’ core business is to make and market products themselves under their own brand names. More specifically, the manufacturer does not have to rely on the specifications and marketing distribution channels provided by the brand vendor. Eng and Spickett-Jones (2009) suggest that OEM firms possess marketing assets, including operational capabilities, intellectual assets (e.g. brand equity), and relational assets (e.g. in-house distribution channels). In other words, OEM firms have control over the complete lifecycle of a product because they have knowledge of the product’s markets, possession of the marketing capabilities in terms of branding and distribution, and technical design and technological know-how (Eng, 2009). A summary of the discussion is presented in Table 1.1:



**Table 1.1: Types of Manufacturer**

	<b>OEM</b>	<b>ODM</b>	<b>OBM</b>
<b>Core Business Operations</b>	Manufacture of a component or subassembly in production network of brand vendor	Design and large overall portion of production of a product, which could be for multiple brand vendors and under brand companies' product specifications	Make and market products themselves under their own brand name
<b>Presence of Marketing Specific Assets</b>	Routines to produce a component in a repetitive pattern	Operational capabilities, production knowledge, product design, technical and technology for production	Operational capabilities, intellectual assets, relational assets

Adopted and Modified from Eng and Spickett-Jones (2009)

From the above discussions, the relationship among these three primary types of manufacturer appears to be that ODM is the advanced version of OEM while OBM is the advanced version of ODM. These manufacturers wish to enhance their profit margins by moving into nearby value chain activities with higher value added. Forward integration (brands and distributions) or backward integration (research and development) seem to be logical strategic alternatives to enhance the manufacturers' position in the industry global supply chain networks (Lin, 2004). By selling their own-brand products, manufacturers can increase their profitability and fully use their manufacturing capacities, cooperating widely with their partners in the industry's global supply chain networks. According to the academic literature, this relationship is known as 'manufacture upgrade' (Wells, 1978; Kumar and Kim, 1984; McDougall *et al.*, 1994; Gereffi, 1996; Poon, 2004; Tan, 2007; Sturgeon, 2008). Eng and Spickett-Jones (2009) describe how, in the process of manufacture upgrade, the low cost producer of labour intensive OEM move towards operations that create competitive advantage based on product design in ODM, and proprietary technology and brand equity in OBM. For example, Fan (2006) studies the manufacturing industry in emerging markets and describes the situation in East Asia's newly industrialized economies, which follows the linear model, from cheap labour assembly to the second stage of OEM, ODM, and OBM.

However, no matter which stage the manufacturers are in, both Zhao *et al.* (2005) and Lin (2004) confirm that the capability of research and development is becoming more critical for both the survival and further development of the organization.

Luo (2003) indicates that many Hong Kong entrepreneurs and foreign multinationals have used the Pearl River Delta region as a manufacturing base for their global value chain management. Most of the manufacturing firms in the area engage in OEM and ODM, which leverages on their cost advantage of access to cheap labour and raw materials. Given the intense regional and global competition, privately-owned Chinese SME manufacturers are under increasing pressure to upgrade from being a low-cost producer and/or assembler to becoming a value-added producer of proprietary technology, underpinned by brand reputation in the global commodity chain, for the purpose of enhancing their competitiveness and securing long term partnerships with foreign brand vendors (Eng and Spickett-Jones, 2009). For example, other developing countries, such as Vietnam and Thailand, are starting to play catch up and challenging the competitive position of the Pearl River Delta region. Furthermore, as privately-owned Chinese SME manufacturing firms attempt to move away from the cost leadership strategy, they face intense competition from other newly industrialised economies, such as South Korea and Taiwan, which have already engaged in manufacture upgrading for many years and secured their status in the marketplace (Wu *et al.*, 2008). Against this competitive backdrop, a firm's competence in developing and managing its external relationships is critical for manufacture upgrade to ensure a successful transition from OEM to the fully-fledged status as ODM or OBM.

China's economic experience is highly path dependent (Walder, 1995) and continuous, with gradual reform (Bateman and Tan, 1998) in terms of the government policies in encouraging competition between firms through autonomy and incentives (Tan, 2007). The centre of the policy incentives is the notion of decentralisation, which gives the local

government the authority to retain the surplus revenue after paying tax to the central government (Nee, 1992). More specifically, the local authority is entitled to a portion of the manufacturers' profit if they perform well. As a result, this encourages the local authority to support the development of local business that could influence successful manufacture upgrade. In other words, the Chinese government has already been playing an active role in the organization (industry) development and transformation. In common with other developing, newly industrialised economies (e.g. South Korea, Singapore and Malaysia), government incentives have been used as a way to encourage and support manufacture upgrade.

As with any development process, the newly established privately-owned Chinese SME manufacturing firms may not possess the size and scale of Western brand vendors because they neither produce products under the specifications of a brand vendor nor rely on a brand vendor's brand name and distribution channels (Eng, 2009). More concretely, the majority of newly established privately-owned Chinese SME manufacturers are small and medium size enterprises (SMEs). More recently, the Chinese central government has already offered various incentives for local industrial business, such as providing management training for over 20,000 SME owners and helping nearly 10,000 SMEs in six major cities to set up in business (Xinhua News, 2003). At the time, the earlier business model OEM and ODM can continue to generate income to provide sustainable backing for a new business model, such as OBM, after upgrading. In addition to the government incentive policy and education efforts, it is also important for individual manufacturers to seek alternative ways to improve their knowledge resources for the purpose of manufacture upgrade by acquiring skilled workers.

Among the many subdivisions of the manufacturing industry sector, in this research, I decided to study the "die-casting" industry because the design element in this industry is a highly complex process, requiring experience, domain knowledge, and problem-solving

knowledge (Yagel *et al.*, 1995; Lee and Lou, 2002). In particular, I focus on four specific sub-categories of SMEs: “Surface Treatment”, “Die-casting Part Machinery”, “Die-casting Molding/Tooling”, and “Die-casting Part Subcontractor”. These four sub-categories represent the heart of the die-casting industry in terms of manufacturing, and are directly involved in the process of designing and producing the engineer part. Moreover, given the nature (manufacturing) and size of the businesses (SMEs), it is very difficult for Chinese SME die-casting manufacturers to codify the relevant knowledge into firm specific knowledge, because foreign vendors typically ask the companies to undertake different projects (which requires different knowledge) from time to time and SME manufacturers in China, that focus primarily on production, often lack rigorous procedures for organizing and documenting the relevant knowledge into business routines. Therefore, knowledge resource development practices become more important with respect to the competitiveness of privately-owned Chinese SME manufacturers. This thesis focuses on exploring the patterns of knowledge resource development practice through bridging information asymmetries in network-based informal labour market. Viewing the knowledge as rooted in individual skilled workers and knowledge resource development practice is the way of attaining these skilled workers, I intend to develop a knowledge resource development framework in the Chinese context.

#### **1.4 Thesis Layout**

There are eight chapters in this thesis, including this introductory chapter. The first chapter provides an introduction to my research topic and objective, and outlines the characteristics and recent development of the manufacturing sector in China. The following two chapters present the literature review. In chapter 2, I examine how the academic literature defines the existing ideas and a concept related to the definition and scope of knowledge, and links these with the key institutions that help to form knowledge. Three key research issues

are identified in this chapter. The first issue concerns the existence of informal rules within the social networks and the actors' collective actions (or pressures) related to putting into effect these rules. The second issue concerns a firm's (employer's) strategy to acquire skilled workers from social networks through recruitment practices, given that firms often acquire resources from social networks to enhance their competitive advantage in the marketplace. The third issue is similar to the second one, except it is from the skilled workers' perspective. This section focuses on identifying how skilled workers use social networks to enhance their own "employability" through job referral and how these privately-owned Chinese SME manufacturing firms monitor this process. Chapter 3 discusses the connection between social networks, social capital and *guanxi*; I focus on discussing the link between social capital and *guanxi* which helps my research data interpretation.

The fourth chapter discusses research methodologies. I discuss the rationale behind the research design and its associated methodological issues. This research follows the interpretivist philosophy and utilises qualitative research which can provide denser information and more innovative approaches (Seaker *et al.*, 1993). Qualitative methodology seeks to answer questions that cannot be answered through quantification, random sampling, probability testing, and other measures, which seek to control the environment of the participant. It aims to bringing a new depth and riches to data analysis by encouraging researchers to see differently, or to think "outside the box" (Greenfield, 1996). The in-depth interview is a relatively "loose" term used frequently by qualitative researchers to refer to the research process whereby an interviewer asks questions, seeking to generate "thick description" from the encouraged, elaborated and detailed verbal accounts produced by the interviewees (Rapley, 2004). Compared with survey-based questionnaires, in-depth interviews are more appropriate for this research since they provide access to a deeper, more complex understanding of the interviewees' attitudes and experiences. Therefore, the in-depth

interview method is employed to explore a knowledge resource development practice for privately-owned Chinese SME manufacturers. I will also discuss the criteria for selecting the interviewees, and then explain the data analysis process.

Chapters 5, 6 and 7 present the research findings and discussion. Each chapter discusses the role of different types of *guanxi* in the knowledge resource development practice of privately-owned Chinese SME manufacturers in terms of one of the three key research issues that I study here. Chapter 5 focuses on the influence of individual actors' behaviour and motives on the informal rules within social networks of business cooperation among privately-owned Chinese SME manufacturers. This chapter describes the relationship between the informal rules and conditions of social networks and the actors' attitudes toward knowledge transfer among the actors in the industry. I found that the formation of informal rules that govern the skill availability information transfer and labour matching process in Chinese society is based on three main components: principal-agent, reciprocity, and relationship hierarchy. Based on this theoretical foundation and empirical data, I identify seven specific informal rules (such as "anonymity", "*huibao*", "*lun*", "*liyi*", "*mianzi*", "*renqing*", and "integrated" rules) that have been widely used in China. Chapter 6 focuses on the owners and senior engineers' behaviour regarding the strategy of skilled worker acquisition in terms of recruitment practice. Using social capital theory and its associated *guanxi* specifications, I explore how privately-owned Chinese SME manufacturers use different dimensions of *guanxi* to gain advantages when engaging in recruitment practices through social networks to acquire talented skilled workers. In chapter 7, I investigate engineers' behaviour and motives regarding "employability" through job referral. Using social capital theory and its associated *guanxi* specifications, I explore the influence of different dimensions of *guanxi* on job searching, job matching and compensation negotiating activities.

The final chapter (chapter 8) presents a discussion of the findings and the conclusions. I will offer general discussions and a thesis summary in this chapter. A general framework is developed in order to highlight the develop knowledge resources through bridging information asymmetries in Chinese network-based informal labour market. The focuses of this chapter describes what I learnt from this research and highlight the contributions of this study. This thesis advances the knowledge in this subject by developing a comprehensive framework through qualitative research, which highlights the critical roles of different types of social capital/*guanxi* (structural, cognitive and relational) played in bridging information asymmetries in network-based informal labour market in Chinese SME context.

### **1.5 Chapter Summary**

This chapter has offered a general overview of the study. It began by discussing the research objective and contribution. This research focuses on studying the patterns of knowledge resources development practice through bridging information asymmetries in network-based informal labour market in Chinese context. For a manufacturing firm to increase their capability in terms of research and development, it must be able to form new knowledge, which is often achieved by acquiring it from another individual or organization. When the concept of the social network relationship is applied in the Chinese context, personal relationships (or “*guanxi* contacts”) play a more important role in knowledge transfer and the mobility of skilled workers.

Then, the discussion proceeded by explaining the development of the manufacturing industry in China. This section revealed that there are three primary types of manufacturer in China: own equipment manufacturing (OEM), original design manufacturing (ODM) and own brand manufacturing (OBM). No matter which type of manufacturer the firm belongs, the capability of research and development is critical for both the survival and further

development of the organization, as privately-owned Chinese SME manufacturing firms attempt to move away from the cost leadership strategy. This led to a discussion of the choice of a specific manufacturing sector for the current research target – the “die-casting industry” –as the design element in this sector is a highly complex process, requiring experience, domain knowledge and problem-solving knowledge. As a result, knowledge resource development practices have become more important with respect to the competitiveness of this sector.

Finally, I discussed the layout of this thesis. In chapters 2 and 3, I will examine how the academic literature defines the existing ideas and concepts related to the definition and scope of knowledge, social networks, social capital and *guanxi*. Chapter 4 will discuss the rationale behind the research design and its associated methodological issues. This research follows the interpretivist philosophy and utilises qualitative research which can provide denser information and more innovative approaches (Seaker *et al.*, 1993). Chapters 5, 6 and 7 present the research findings and discussion, while chapter 8 focuses on a discussion of the findings and conclusions.

In the following chapter, I focus on examining how the academic literature defines the ideas that underpin and frame the field of knowledge and its formation strategies. I identify the strengths, weaknesses, and limitations of the existing management literature, and the weaknesses and limitations informed the development of my research questions and the focus of this thesis.



## **CHAPTER 2**

### **KNOWLEDGE RESOURCE DEVELOPMENT THROUGH INSTITUTIONS**

#### **2.1 Chapter Overview**

The primary goal of this chapter is to examine how the academic literature defines the ideas that underpin and frame the field of knowledge. This exercise led to the gradual development of the research questions that lie at the core of this study. It begins by providing background information about knowledge. This exercise also provides valuable insights into the relationship between knowledge and organizational capability. The second part of the chapter offers a review of literature related to how knowledge can be formed through different institutions, including the state, the market, corporate hierarchy, associations and network communities. The main objective of this chapter is to describe the current thinking on subject. In doing so, I highlight the weaknesses and gaps in the literature. These gaps ultimately inform my research questions which are discussed in this chapter.

#### **2.2 Knowledge Resource and a Firm's Competitive Advantage**

Although people seem to believe that the knowledge is facts you have in your head and skill is the ability to use knowledge to actually accomplish something; however there has been no proper agreement on this among academics. Some field experts believe that skill is part of knowledge. For example, Nonaka (1994) describes how the technical element of tacit knowledge covers the concrete know-how, crafts, and skills that apply to a specific context. Hedlund (1994) categorises three aspects of knowledge: cognitive knowledge (in the form of mental constructs and precepts), skills, and the knowledge embodied in products, well-defined services or artefacts. Ainley (1993) explains that skills and competencies are not the property of individuals but rather belong to the collective knowledge developed in society

through its division of labour and skill. However, several other field experts perceive the correlation from a totally different point of view; namely “knowledge is part of skill”. For example, Attewell (1990, p. 423) indicates that skill is “*the idea of competence or proficiency – the ability to do something well...implies understanding or knowledge...evokes images of expertise, mastery, and excellence*”. Thompson *et al.* (2000) and Crouch (2005) suggest that skill is an appendage to the worker who processes different forms of knowledge. Furthermore, Thompson (2005) indicates that, at one level, all knowledge is tacit in that it requires at least some hands-on experience to operationalize it. His reason is that the information is passive, static, discrete, and already exists to be accessed and marshalled for a purpose and knowledge requires the application of cognitive capacity because it demands interpretation, understanding, and deployment or use. In this case, Thompson’s (2005) definition of knowledge is similar to Coombs and Slaby’s (1977) definition of skill, as personal abilities which have the potential to enable a person to act effectively. Stasz (2001) concludes that, from the sociocultural or situative perspective, skill is the knowledge, attitudes, or abilities needed for a certain job that can be understood only within that particular working context.

The reason why the field experts fail to distinguish between “knowledge” and “skill” is because their meaning is obvious (Form, 1987; Attewell, 1990; Spenner, 1990; Inkpen and Dinur, 1998; Grugulis *et al.*, 2004). Although there is no definitive answer about what knowledge or skill is, however, all scholars seem to agree that both knowledge and skill are the resource of an organization and critical for developing organizational capability (Teece, 1981; Drucker, 1993; Prahalad and Hamel, 1994; Teece, 1998; Lawson and Lorenz, 1999; Thompson *et al.*, 2000; Lam, 2002; Crouch, 2005). As a result, this thesis will not attempt to explore the difference between knowledge and skill, but rather use the term “knowledge” to represent those general beliefs of an organizational resource that can be used to develop organizational capability. For example, Teece (1998), and Mayhew and Keep (1999) suggest

that boosting the supply of skilled and educated employees (skilled workers) will improve productivity. Easterby-Smith and Prieto (2008) point out that knowledge is a critical factor that allows organisations to reconfigure themselves into new capabilities and competences. Eisenhardt and Martin (2000) state that knowledge determines whether or not an organisation is able to develop its capability (by reconfiguring its organisational resources) in a high velocity market. In summary, knowledge is a critical resource for an organisation. By itself, knowledge opens up more opportunities for organisations to engage in the marketplace.

Scholars have examined the different types of knowledge and the ways of classifying it. Earlier, Becker (1964) suggested that knowledge consists of two parts: a very general level of education, (such as is normally provided by the national education system) and a firm-specific component (of use only to the firm concerned and therefore not easily poached). This view of dividing the type of knowledge into the individual and firm specific level is also supported by Stevens (1996; 1999). More recent studies on distinguishing between different types of knowledge include: Lundvall and Johnson's (1994) analysis of knowledge as an economic resource, which distinguishes four different types: "know-what" (knowledge about facts), "know-why" (scientific knowledge of the principles and laws of motion in nature, in the human mind and in society), "know-who" (specific and selective social relations, a rather peculiar form of knowledge that is introduced here because innovation is basically an interactive process), and "know-how" (knowledge of, for example, how to do different things on a practical level). Grugulis *et al.* (2004) draw a distinction between "old" and "new" knowledge for a new economy. According to them, old knowledge, as traditional technical knowledge, and new knowledge are related to personal and behavioural characteristics, attitudes, character traits or predispositions (e.g. leadership, motivation, positivity, reliability, and emotional skills). Stasz (2001) assesses the types of knowledge from both the economic and sociocultural perspective, drawing a distinction between four broad knowledge areas:

“academic or cognitive knowledge” (generally associated with subject-matter areas defined by the various academic disciplines, such as English and mathematics), “generic knowledge” (such as problem solving, communication), “technical knowledge” (the specific knowledge needed in an occupation) and “work-related attitudes or soft knowledge” (knowledge such as motivation, volition, and disposition).

As the above review indicates, there are many ways to classify the different types of knowledge. However, all of them focus on classifying knowledge from either the epistemological dimension (see Lundvall and Johnson, 1994; Stasz, 2001; Grugulis *et al.*, 2004), which concerns the modes of the expression of knowledge, or the ontological dimension (see Becker, 1964; Stevens, 1996; 1999), which relates to the locus of knowledge. More specifically, the epistemological dimension divides the types of knowledge into explicit and tacit forms (Polanyi, 1962; Nonaka, 1994; Inkpen and Dinur, 1998; Lam, 2000; Lam and Lundvall, 2006). Explicit knowledge is knowledge that can be transferred via formal educational or communication media (Nonaka, 1994; Inkpen and Dinur, 1998). In order for this to happen, the knowledge itself needs to have the capacity to be formulated, documented and stored so that organizations can gather, aggregate, market, and disseminate it by various means and through various institutional routes (Kogut and Zander, 1992; Spender, 1996b; McKinley, 2005; Thompson, 2005). For example, the knowledge contained in textbooks or training manuals is a good example of explicit knowledge, as it has been articulated, codified, and stored in certain media.

Tacit knowledge, on the other hand, is “*action-oriented and has a personal quality that makes it difficult to formalise or communicate, such as operational skills and know-how acquired through practical experience*” (Lam, 2002, p. 68). For example, the knowledge of how to ride a bike is tacit knowledge, because it is very difficult to formalise or communicate; it can only be learnt through personal experimentation. Although all kinds of knowledge are

important for an organization, the type of knowledge that meets all of the criteria for creating competitive advantage from a resources perspective is tacit knowledge which is difficult to replicate and inimitable. In order to transfer tacit knowledge, the individual or organization must engage in close interaction in order to learn the relevant context through practical experience, so the existence of trust between the parties is essential in this situation (Polanyi, 1966; Spender, 1996a; McKinley, 2005). As Nonaka and Takeuchi (1995) suggest, knowledge that is tacit and highly personal has little value until it can be converted into explicit knowledge that other organizational members can share.

Besides the epistemological dimension, the ontological dimension provides a different way to classify the types of knowledge. The ontological dimension divides knowledge into the individually and collectively (organizational) embraced context (Lam, 2000; Lam and Lundvall, 2006). Lam (2002, p. 69) further explains that individual knowledge is “*a repertoire of knowledge “owned” by the individual, which can be applied independently to specific types of tasks or problems. It is also transferable, moving with the person, giving rise to potential problems of retention and accumulation*”. This is similar to Thompson *et al.*'s (2000) suggestion that knowledge has to be acquired by the individuals who possess it. Conversely, collective knowledge refers “*to the ways in which knowledge is distributed and shared among members of the organization. It is the accumulated knowledge of the organization stored in its rules, procedures, routines and shared norms which guide the problems solving activities and patterns of interaction among its member*” (Lam, 2002, p. 69). Experts also describe this type of knowledge as “firm specific knowledge” (Huber, 1991; Andersson and Svensson, 1994; Wasmer, 2006). Lam (2000) develops a knowledge typology that captures all of the critical elements of the above discussion by integrating the above two dimensions into four types of knowledge: embrained, encoded, embodied and embedded knowledge (see Figure 2.1).

**Figure 2.1: Types of Knowledge**

		<b>Ontological Dimension</b>	
		Individual	Collective
<b>Epistemological Dimension</b>	Explicit	Embrained Knowledge	Encoded Knowledge
	Tacit	Embodied Knowledge	Embedded Knowledge

Adopted from Lam (2000, p. 491)

The first type of knowledge is embrained knowledge, that is the combination of individual and explicit dimensions of knowledge. In other words, embrained knowledge is individually owned and can be learnt through reading and listening to formal standardized educational materials (i.e. books). For example, Lam (2002) suggests that embrained knowledge is typically learnt through reading books and formal education/training. A firm that predominantly possesses this type of knowledge usually engages in a high standardization of knowledge and work, where individual employees have a high degree of autonomy and discretion in the application and acquisition of knowledge within their own specialist areas. As a result, its structure is primarily “bureaucratic” and particularly efficient in stable environments. The employees of an embrained knowledge dominant firm usually have a high level of formal education and training.

The second type of knowledge is encoded knowledge, that is the combination of the collective and explicit dimensions of knowledge. This means that codified knowledge, such as blueprints and recipes, is contained within the organisation and can be shared through written rules and procedures as well as formal information systems (Bonora and Revang, 1993; Lam, 2000). Therefore, it tends to generate a unified and predictable pattern of behaviour and output within organizations. A firm that focuses on this type of knowledge usually engages in highly standardized work, but the dependence on an individual’s knowledge is minimized, as the knowledge structure is collective, functionally segmented

and hierarchical. According to Lam (2000), this type of knowledge dominated firm is well suited to mass production in a stable environment because the key organizing principles are specialization, standardization, and control, which are designed to achieve efficiency and stability.

The third type of knowledge is embodied knowledge, that is the combination of the individual and tacit dimensions of knowledge. It means that the knowledge is individually owned and builds upon “bodily” or the practical experience of “doing”, learnt through experience and training based on apprenticeship relations (Lam, 2000). Spender (1996a) suggests that this type of knowledge has a strong automatic and voluntaristic component, so its generation and application does not need to be fitted into or processed through a conscious decision-making schema. In other words, this knowledge is action oriented and context specific. The firm that predominantly possesses this type of knowledge usually engages in a low standardization of knowledge or work process and is a highly organic organisation, as a significant proportion of problem-solving activities are linked to individual employees’ experience and capacity to adapt to new situations. Because of this, a firm is usually required to acquire this knowledge through the open market and is vulnerable to the loss of its competencies to potential competitors (Lam, 2002).

The final type of knowledge is embedded knowledge, that is the combination of the collective and tacit dimensions of knowledge. This means that the knowledge is collectively (i.e. firm-based) owned and built on practical experience that cannot easily be transformed into an information system. Lam (2000) suggests that this type of knowledge is produced through social interaction between the different members of the organisation and supported by its shared cultural norms. It is “embedded” in its operating routines, team relationships and shared culture, which is best illustrated by Japanese organisations. The firm that predominantly possesses this type of knowledge is usually engaged in a low standardization

of knowledge and work and is capable of supporting complex patterns of interaction in the absence of written rules, usually referred to as a “J-form” organisation (Aoki, 1986; Nonaka and Takeuchi, 1995; Lam and Lundvall, 2005). The type of knowledge usually develops internally through shared work experience and joint problem solving.

### **2.3 Knowledge Formation Institutions**

From Crouch’s (2005) perspective, knowledge, like any collective good, requires governed institutions that provide frameworks of orders and forms of regulation (varying in degree) to deliver to those who have access to them, because both individuals and organizations are reluctant to bear the costs of financing knowledge acquisition unless they can see a connection between investment and payoff. Without these institutions, competitive organizations may not exist because there are no skilled individuals available for them to use. Crouch’s (2005) work has identified five institutions that contributed toward the development of knowledge: the state, the market, corporate hierarchy, associations, as well as communities and networks.

#### **2.3.1 The State**

The state refers to the formal training and education programmes offered by the government. It is the general responsibility of modern governments to ensure that their population has the opportunities to enrol in both the basic and far advanced level (for those few who wish to progress) of education. According to Crouch (2005), the state education system can be divided into two types. The first type is the national/public general education that is offered by almost all modern states that focuses on developing the citizens’ literacy and numeracy levels (Green *et al.*, 1999; Ashton *et al.*, 2002). The second type is the national vocational education and training and apprenticeship systems that are linked to the acquirement of specific knowledge and is only offered by selected states. For example,



besides the formal education system, the German government also relies on the tripartite-governed apprenticeship system to provide task-based training for German citizens (Wagner, 1999; Deissinger and Hellwig, 2005). Lam (2002) suggests that both formal education and training systems shape the social constitution of knowledge and provide basic qualifications, work status and job boundaries, enabling the government to develop the relevant occupational competence for its citizens. Of course, the country-wide differences do exist. For example, Lam (2002) further indicates in her paper that there are different types of education and training systems: some put emphasis on broad competences (e.g. Japan, Germany, Denmark) and others more emphasised more specialised and narrow knowledge (e.g. Anglo-American model). Despite the differences, at large, the state-level of formal education and training system still provides the support on developing a broad-based general knowledge that enable individual citizens to build on this knowledge base and develop specialised knowledge later on.

### **2.3.2 The Market**

The second type of institution is the market (hiring skilled workers from the labour market through formal recruitment practices). More concretely, this enables a company to acquire knowledge using the market institution to purchase directly from the market, otherwise known as a formal recruitment process (Felstead and Ashton, 2000; Clarke and Herrmann, 2007; Sparrow, 2007). According to Lam (2002), a company can use the knowledge source of the occupational labour market through hiring and firing to reconstitute its knowledge base and respond flexibly to the shifting market requirements and technological changes. At the same time, individuals who are hired also bring in new ideas to enlarge the knowledge base of the company, which leads to the stimulation of innovation (Chesbrough, 2003; Thompson, 2005; Chen and Huang, 2009). Although acquiring talented individuals through formal recruitment practices seems to be a good strategy for maintaining

an organization's knowledge resources, however this very idea also provides incentives for employers not to invest in the development of knowledge. Crouch (2005, p. 100) indicates that the *“market often figures as the source of problems of training rather than of solutions because it is market competition that produces incentives to free ride”*. In this sense, employers will be reluctant to invest in advancing the knowledge of their own employees because they may subsequently leave the firm, taking the employer's training investment to a competitor.

### **2.3.3 Corporate Hierarchy**

The third type of institution is the corporate hierarchy that is usually tied to internal training and knowledge development. The primary purpose of the employee training programme is to develop skilled workers who possess firm specific knowledge. Crouch (2005) mentions that workers are recruited from the general national education system at certain fixed points and then the firm provides them with specific knowledge, which is usually referred to as “firm specific knowledge”, such as the knowledge resources that are specific to that individual firm (Huber, 1991; Andersson and Svensson, 1994; Sako, 1995; Wasmer, 2006). The specific knowledge is developed largely though a large part of the work-related knowledge is generated through firm-specific on-the-job training. This implies that the company should rely not only on formal education and external recruitment, but also invest in development its employees' firm-specific knowledge. In an ideal situation, the firm specific knowledge is transferable among its sub-business-units. Some scholars suggest that knowledge transfer among organizational units provides opportunities for mutual learning and inter-unit cooperation that stimulate the creation of new knowledge and, at the same time, contribute towards the organizational units' ability to innovate (Kogut and Zander, 1992; Stevens, 1996; Tsai and Ghoshal, 1998; Tsai, 2001). To avoid labour market competition where highly-trained employees will soon be hunted by other organization, the development

of the concept of an internal labour market is very important. Lam (2002) suggests that internal labour markets are characterised by long term stable employment with a single employer and career progression through a series of interconnected jobs within a hierarchy. Within the internal labour market, the progression to upper level positions is achieved through the accumulation of a wide range of knowledge and organizational experience.

#### **2.3.4 Associations**

An association, a type of institution, can be viewed as a group of companies or individuals who enter into an agreement to accomplish a purpose with a formalised network structure and operating guidelines, and it has provided some of the most successful forms of governance of knowledge development (Crouch *et al.*, 1999). In a sense, the association can be described as an extremely formal kind of social network, introduced above, with the actors having the authority to govern its function, unlike social networks that are fragile in terms of their structure and management control. Crouch (2005) later describes how associations are purely voluntary bodies to which firms choose to adhere and are often well equipped to perform something of the role of the state in ensuring the provision of collective goods or shared knowledge. As a result, the monitor system of the associations can ensure that all firms are playing a part in the expected action, such as taking on trainees and ensuring that the courses are kept up to date (Streeck and Schmitter, 1985; Streeck, 1992). Maskell *et al.* (1998) suggest that the main reason for the competitive advantage of those small countries that are rich in social relationships lies in the capability of the social institutions to promote shared trust and interactive learning resulting in a set of “localised capabilities” which are tacit and difficult for outsiders to imitate. More importantly, the business community has participated in trade associations, promoting intense interaction and information sharing between manufacturers and suppliers. Other than the trade associations among companies, professional associations that allow individuals to participate and share knowledge can also

fulfil the purpose of knowledge develop. For example, Lundvall and Christensen (1999) say that Denmark has a well-developed, state-funded vocational system resulting in a good supply of skilled workers together with a flexible work system/flexible form of organisation with a strong emphasis on cross-functional collaboration. This system enables the Danish company to create and accumulate knowledge internally and between firms through “learning-by-doing” and “learning-by-interacting”.

### **2.3.5 Communities and Networks (Social Networks)**

Other than the state, the market, corporate hierarchy, associations, communities and networks, otherwise known as social relationships or social networks, among firms and individuals provide an alternative solution for knowledge development (Streeck, 1992; Inkpen and Beamish, 1997; Inkpen and Tsang, 2005; Aldrich and Kim, 2007). Social networks are a key vehicle for firms to obtain and access external knowledge, which leads to the development of their innovative ability (Cooke, 1996; Powell *et al.*, 1996; Porter and Ketels, 2003; Pittaway *et al.*, 2004). The reason is, according to Almeida and Kogut (1999), because social networks can enhance the access of skilled workers to work or firms, thereby promoting awareness and the early adoption of research and development. Social networks are very important in helping employers and employees to improve their information about the informal labour markets and knowledge, particularly in regions where large numbers of small and medium-sized enterprises cluster together (Crouch *et al.*, 1999; 2001; Thompson, 2005). Compared with associations, social networks can be described as networks with an informal structure and operating guidelines. Crouch (2005, p. 102) describes network communities as “*a wide range of informal social bonds outside the framework of formal associations*”; therefore the actors within the network communities “*depend for their power to enforce collective action on informal pressures rather than the formal rules and membership conditions of formal associations*”. Despite their abstract and complex nature,

researchers suggest that social networks facilitate the creation of new knowledge (Kogut and Zander, 1992; Tsai, 2000). For example, Tenkasi *et al.* (1998) suggest that highly skilled individuals, such as scientists and engineers, have indicated that the most useful learning experience for them was not obtained from formal courses or on-the-job training but rather from informal learning through exchanging knowledge within their social networks, since the knowledge used constitutes a large tacit component, which cannot be easily codified (Lam, 2002), and the technology is changing so rapidly that it surpasses the speed of development of the formal training and education (Liebeskind *et al.*, 1996; Jones *et al.*, 1997; Finegold, 1999; Folke *et al.*, 2005).

### **2.3.6 Synthesis and Commentary**

Crouch (2005) identified five major institutions – the state, market, corporate hierarchy, association, and communities and networks – that are deeply embedded in the concept of human capital, as the knowledge of the firm can be improved through being acquired by the individual who possesses it and it is the employers who use these skilled individuals to develop a firm's competitive advantage in the marketplace. Human capital attributes (including experience and skills) have long been argued to be critical resources, especially with regard to SMEs' organizational capability (Cooper *et al.*, 1994; Florin *et al.*, 2003; Cassar, 2006). The concept of human capital suggests that this constitutes the knowledge that individuals acquire through investing in schooling, job training and other experience enhancement exercises (Becker, 1964; Sohn *et al.*, 2006). Alvarez and Barney (2001) suggested that human capital can create a unique organizational capability, but one in which the firm does not really have control, as workers can freely move from one company to another. In order to develop a firm's knowledge resources, the firm needs first to identify skilled workers, who are capable of performing the tasks that the firm requires, then attain them in the formal or informal labour market.

Thus, the development of knowledge resources, from this perspective, is more about bridging the information asymmetries in the formal or informal labour market in order to attain individual skilled workers who possess the knowledge that is necessary for the job, and less about learning and innovation. More specifically, when I refer to a firm having “knowledge” about who is capable of performing the given tasks, the term “knowledge” here should really be replaced by “information”. This “information” about what individual skilled workers are capable of performing does not equate to anything in Lundvall and Johnson’s (1994) typology of “knowledge” - know-who, which still emphasises learning and innovation in the interactive process. ‘Industrial and Corporate Change’ (an academic journal) devoted an entire special issue to sharpening the distinctions between information and knowledge (e.g. Ancori *et al.*, 2000; Cohendet and Steinmueller, 2000; Cowan *et al.*, 2000; Malerba and Orsenigo, 2000). The common theme in this special issue is the consideration of information as a “flux”, which is defined as a flow of messages and knowledge representing the capacities or capabilities of an individual or social group. This distinction between information and knowledge is in line with Nonaka’s (1994) suggestion that, although the terms “information” and “knowledge” are often used interchangeably, there is a clear distinction between them. Information is a flow of messages or meanings and knowledge is created and organized by the very flow of information, anchored on the commitment and beliefs of its holder, which emphasizes an essential aspect of knowledge that relates to human action. Foray and Steinmueller emphasise on several occasions (i.e. Foray and Steinmueller, 2003a, 2003b) that knowledge can often be generated and reproduced outside the individual knowledge holders in the form of education or the teaching and learning process. As Cohendet and Steinmueller (2000, p. 204) put it, *“knowledge is thus not simply the accumulation of information in a stockpile and it cannot be comprehended independently of the process through which it is obtained. The cognitive capabilities of agents differ; in particular, in their knowledge about*

*how to use knowledge, how to transmit knowledge and how to manage knowledge*". In this thesis, I adopt Crouch's (2005) perspective and view knowledge as lying within the individual who possess it, focusing on exploring how firms can develop their knowledge resources by bridging the information asymmetries in the labour market. Thus, in order for firms to improve their knowledge resources, they need to obtain "information" about the possible candidates (i.e. skilled workers) who are capable of performing these specialized tasks and recruit them for the company.

For SMEs, it is has been suggested that human capital plays a critical role in the development of organizational capability (Dividsson, 1991; Dividsson and Honig, 2003), since large, well-established businesses have track records (business routines) and established business experience about what works and what does not during the execution of certain organizational tasks (Unger *et al.*, 2011). In a sense, large companies have already developed and codified certain business related experience into firm-specific knowledge which will be largely unaffected by the absence or addition of an individual skilled workers. In contrast, SMEs which lack established business routines may suffer greatly when one of the key skilled workers leaves the business or be rewarded significantly when additional key individual skilled workers join the business. Therefore, the knowledge resource development practice in SMEs tends to focus more on the acquisition and retention of key individual skilled workers. These discussions provide useful guiding principles that contribute to the development of the research questions for this thesis.

## **2.4 The Research Context and Focus of Investigation**

In recent years, the research has indicated that, in order to remain competitive, more and more manufacturing companies are moving from passively receiving orders from the brand vendors to providing original design solutions (such as product designs) for the brand

vendors (Siu *et al.*, 2006; Eng and Spickett-Jones, 2009; Tang and Chin, 2009). This knowledge is largely tacit in nature because it usually concerns the many new developments in product innovation, gives a firm a competitive edge over its rivals in this regard, and has not yet been codified. Furthermore, this knowledge is usually possessed by individuals (i.e. engineers) who have recently been involved in the product development process and are willing to share their experience with those who are close to them (Lu *et al.*, 2008; Teigland and Wasko, 2009). Finally, we also cannot deny that individual skilled workers who have been highly trained by either formal education or corporate training courses also possess important knowledge that can contribute to a firm's success if the company hires them. In order to maintain competitiveness in the market place, privately-owned Chinese SME manufacturers often use social networks to acquire skilled workers through HR practices to enhance its competitiveness (Ernst and Kim, 2002; Lu *et al.*, 2008).

From various researchers' perspectives, the Chinese business environment is unique and has been shaped by two primary forces: Confucianism (Yang, 1994; Chen, 1995; Wank, 1996) and the socialist market economy (Steidlmeier, 1997; Harvey, 1999; Pearce II and Robinson Jr., 2000). More specifically, it has been suggested that Confucianism governs how individuals should behave and treat others in a social-network-driven society and socialist market economy system, while a socialist market economy describes the general business atmosphere in China, given its unique economic and political condition. The interaction among these two primary forces creates a distinctive business environment in China.

The central value of Confucianism can be described as "*lun*" and can be interpreted in three different ways: human relationship, social order and moral principle (Chen and Chen, 2004). From the human relationship perspective, *lun* suggests that individuals exist in relation to others and should behave accordingly in those relationships, which are known as the Five Cardinal Relationships (*wu lun*): emperor-subject, father-son, husband-wife, elder-younger



brother and friend-friend (Confucius, 1915). From the social order perspective, *lun* states that, in order to establish social stability; individuals should treat each network actor differently according to hierarchical and horizontal differentiation (Fei, 1992). Hierarchical differentiation refers to the members of each relationship enjoying unequal rights and obligations so that the emperor, father, husband, older brother and older friend have more authority than the subject, son, wife, younger brother and younger friend. Horizontal differentiation puts the self “*at the centre of a series of concentric circle*”, such as a family member, close relative, distant relative and so on, and treats them differently according to their proximity to the centre (Redding and Wong, 1986, p. 284). From the moral principle perspective, there is no universal moral standard governing how individuals should interact with the other members in a social-network-driven society, so each relationship should operate under its own moral principles. Chen (1995) suggests that Confucianism has a strong influence on the way of thinking in Chinese business, because it suggests that the self is regarded as the centre of the relationship web. Given that the self is the centre of all social relationships, it is up to the individual to define, interpret or even construct the social relationship.

Chen and Chen (2004) indicate that the Confucian concept of the self is the initiator of social communication and the architect of relationship construction. More specifically, social relationships in China are individual- rather than organization-based (Zhang and Zhang 2006). Child and Möllering (2003) studied the Chinese business environment and found that, given this cultural context, that emphasises the building up of trust through cultivating personal relationships, the Chinese (individuals or businesses) do not easily extend trust outside their familiar social circles. Thus, they proposed that, for outsiders to enter these social circles, they should actively develop personal rapport and transferring business practices to increase the level of trust (Child and Möllering, 2003). This kind of trust arising from personal

connections is qualitatively different from that arising from impersonal law and institutions (Tsui *et al.*, 2004).

Other than Confucianism, the socialist market economy is another characteristic of the Chinese business environment. Park and Luo (2001) and Wright *et al.* (2002) suggest that the socialist market economy in China is a mixture of a planned and market economy (a hybrid model). This system enhances the concept of “neo-localism”, that Nee (1992, p. 3) defines as “*a form of corporatism based on a coalition between local government, the marketized firm and private enterprise, often against the encroachment of the central state*”. Nee (1992) argues that the centrepiece of the Chinese industrial reform emphasises decentralisation, whereby the local government can retain the surplus revenue after paying a certain percentage of tax to the central government. This idea is based on the view that the local government is entitled to an enterprise’s profit, which stimulates local governments to support and pursue market-oriented economic development (Wong, 1987; Zhang and Zhang, 1987). Market reform (decentralization) gives the local government the authority to distribute capital, foreign exchange and other resources (i.e. manufacturing materials) (Duckett, 2001; Zhang, 2004; Edin, 2005). Boisot and Child (1996, 1988) refer to this governance structure as fiefs-like, which is characterized by the lack of a sophisticated administrative mechanism for managing the exchange of market information (it has a relatively low-degree of information codification and diffusion across the country), so the local government (in China) has the ability to exert considerable influence on the local firms within its jurisdiction. Moreover, this tendency towards developing a locally-based (or regionally-based) governance model is further intensified by the dramatic regional differences in business ownership (Tsui *et al.*, 2004). For example, most of the state-owned enterprises are concentrated in Beijing and the north-eastern provinces and most of the privately-owned businesses are located in the south-eastern region, such as Guangdong province (Tsui *et al.*, 2004).

Researchers suggest that, under this form of economic system, society lacks a well-specified structure of property rights and must rely more on personal relationships than on legal contracts to provide assurance that the terms of the transactions will be met and the corporate exchange is personalized (Carroll *et al.* 1988; Stark, 1989; Bond, 1991; Chen, 2007). This is similar to conclusion drawn from Confucianism: the binding authority of personal promises that are governed by social networks surpasses the power of legal contracts. Although this concept of forcing individuals to honour their word helps to resolve many difficult situations, it also has some negative effects, such as leading to corruption and favouritism (Wong and Chen, 1999; Dunfee and Warren, 2001; Gu *et al.*, 2008). These negative effects lie in the guidelines for the decision-making of each individual, which is often affected by this relationship-based culture (Bond, 1991; Peng and Heath, 1996; Su *et al.* 2003). This leads to the conclusion that people will also make decisions in favour of satisfying the demands of their relationship obligation rather than merely to meet the legal requirements of the situation.

Even though Cooke (2005) claims that formal qualifications and pre-employment training remain the dominant practices in China, social networks still play an important role in communicating and transferring knowledge. This is supported by those studies that indicate that a primary concern of Chinese managers and organizations is to engage in extensive networking activities through informal relationship agreements in order to build trust and exchange favours (Kao, 1993; Tsui and Farh, 1997; Park and Luo, 2001). In other words, social networks facilitates economic, information and skilled workers exchange in the Chinese business environment. Therefore, the focus of this research is to study the patterns of developing knowledge resources through bridging information asymmetries in network-based informal labour market, and it extends the discussion in Crouch's (2005) article to address three issues related to this subject: (1) the informal rules that govern skill availability

information transfer and labour matching process within the social networks; (2) the employer's ability and strategy for acquiring skilled workers from the social networks; and (3) how skilled workers (employees) use social networks to enhance their employability in the Chinese context.

#### **2.4.1 Informal Rules**

The first issue I explore involves the informal rules. According to Crouch (2005), the informal rules that are backed by the collective informal pressure (collective action) of the actors within the social networks serve as a keystone for knowledge creation and transfer, due to the fragile structure of social networks, which Provan (1983) described a "loosely coupled coalition". Where there is a lack of formal rules individuals act in their own interest rather than the collective interest of the entire community (Granovetter, 1992; Brass *et al.*, 1998). For social networks to continue to serve a role in developing knowledge resources, a certain level of trust must exist between the actors within the network. As the literature suggests, trust is important in developing and sustaining successful networking activities in terms of the creation, flow, and integration of knowledge (Bolton *et al.*, 1994; Cooke, 1996; Coles *et al.*, 2003).

If insufficient trust exists, this will lead to the problem of free riding, whereby individual actors desire to gain benefits from the social networks without contributing any favours. Crouch (2005) suggests that, in order to solve this problem, all of the actors within the network can collectively apply informal pressure on any actor who acts unethically and insist that the actor corrects his/her action. More importantly, the establishment of frequent and repeated forms of communication can help to build a form of reputational trust and loyalty that can foster knowledge exchange, as those who do not contribute their fair share to the collective learning can be excluded from future interactions (Finegold, 1999; Thompson, 2005). Inspired by Szeto *et al.*'s (2006) observation that Chinese businesses have unique

ways of dealing with the informal rules of business relationships, I attempt to discuss the issues related to knowledge resource development practices with a specific focus on how the informal rules and conditions that are shaped by peer pressure facilitate the exchange of information about skilled workers and the movement of skilled workers through social networks in China.

#### **2.4.2 Recruitment Practice**

The second issue related to recruitment practice. Many cases suggest that the owner or senior management often use social networks to obtain new information and advice, and then apply them to their own business practices, which leads to the development of organizational capability (Smeltzer *et al.*, 1991; Baum *et al.*, 2000). In this research, I will further explore this issue in Chinese business context. Birley (1985; 1987), Smeltzer *et al.* (1991) and Ostgaard and Birley (1996), argue that successful entrepreneurs consistently use networks to obtain ideas and gather information and advice, because interpersonal and inter-organizational relationships enable actors to gain access to a variety of resources held by other actors. For example, Han and Han (2009) found that network-based recruiting generate more pre-hire outcomes in relation to the recruitment (i.e. attracting highly competent employees). As well as delivering new information to the firm, the second function of social networks is to help employers to find talented personnel who already possess the knowledge that the organisation needs (Petersen *et al.*, 2000; Marssden and Gorman, 2001; Castilla, 2005; Leung *et al.*, 2006; Ortiz *et al.*, 2006). Crouch (2005) describes how employers can learn information from potential employees by getting to know them through local networks. Moreover, the social networks also serve as a tool to help employers to cross-check the references and reputation of potential candidates. Crouch *et al.* (1999) use Italy as an example of a country where employers prefer to rely on informal information transmission (within

social networks) to assess an individual job applicant's knowledge and on his or her local reputation rather than on formal certificates.

### **2.4.3 Job Referral**

The third issue is similar to the second, except it is from employees' perspective. Here, I specifically study the job referral practices of privately-owned Chinese SME manufacturers, given that I wish to pay special attention on knowledge resource development practices from the perspective of the employment system and labour market. The concept of employability translates into two different practices. One is to about acquiring the necessary knowledge to enhance one's job performance. As a result, employees become more valuable in the job market. According to Finegold (1998), the concept of employability refers to the continuous development of marketable knowledge so, to be employable, a worker must continue to develop his/her knowledge in order to help organizations to achieve their business objective. In the relevant literature, researchers have suggested that social networks are critical to the flow of knowledge in technical work (Wenger, 1998; Brown and Duguid, 2001; Cross *et al.*, 2006; Laursen and Salter, 2006). As a result, the enhancement of employability is about how employees can utilise their social networks to obtain the knowledge that is necessary to help them to accomplish their tasks.

Another practice related to employability concerns enhancing individuals' ability to find a better, more suitable job and also improve the chances of a company acquiring and retaining better employees. Besides allowing employees to exchange and learn the necessary information for their job, social networks also serve as job search channels for employees. Crouch (2005, p. 103) mentions that "*employees are similarly able to use local networks to discover new sources of employment*". Several research findings have suggested that some job applicants use their social networks as a bridge to enter an organization, because network connections allow individuals to gain influence among the job assigning authorities while

simultaneously providing updated job information to them (Bain, 1997; Marmaros and Sacerdote, 2002). This thesis will attempt to identify how skilled workers use their social networks to enhance their own “employability”, with a specific focus on how employees use their social networks to perform job searches, job matching and compensation negotiations in the privately-owned Chinese SME manufacturing industry.

These three issues appear to be mutually exclusive. They are all governed by informal forces. The current research about these informal forces with regard to relationship dynamics in the Chinese context are mainly based on the concept of *guanxi* (Park and Luo, 2001; Su *et al.*, 2007; Gu *et al.*, 2008), which focuses on the specific roles and obligations that individual network actors play within network relationships. Fock and Woo (1998) suggest that *guanxi* provides motivation and behavioural norms for relationships between the members of society, and distributes benefits and opportunities, which increase the efficiency and effectiveness of firms operating within the Chinese business system. In this sense, *guanxi* is an important business resource for individuals and firms in China to induce cooperation and govern how each network actor should behave in given situations. Although certain *guanxi* dynamics have been identified by field researchers, such as the notion of “*mianzi*”, which is an intangible social currency that allows individual network actors to transfer their influence to each other (Yeung and Tung, 1996), the notion of “*renqing*” which represents the informal social obligation to another party as a result of pressure on a network actor to perform a certain action (Tsui and Farh, 1997), or the notion of “*bao*” which is the code of reciprocity that forces network actors to return favours (Su *et al.*, 2007), these have not been researched within the context of knowledge resource development practices.

These informal forces direct individual network actors’ behaviour in different situations. Academic experts name this kind of informal force “social capital” (Coleman, 1988; Walker, *et al.*, 1997; Koka and Prescott, 2002; Inkpen and Tsang, 2005). In this research, I attempt to

use the concept of social capital and its link with *guanxi* (see chapter 3) to map out how *guanxi* dynamics govern the development of knowledge resources through bridging information asymmetries in network-based informal labour market. More specifically, I wish to explore how the pattern of social network linkages, sharing information among the network actors and personal relationships influence the dynamics of the individual actors within the social network, which reveals several principles that characterise the informal rules with regard to knowledge resource development practices. In terms of the informal rules, previous researchers have suggested that *guanxi* predetermines the relationship dynamics among Chinese network actors (Lim and Bowers, 1991; Bond, 1996; Qing, 2008; Liao and Bond, 2011), but there has been no comprehensive study of how the different dimensions (structural, cognitive and relational) of *guanxi* affect the different types of control mechanism that are embedded in the network relationship, which leads to the formation of informal rules. I intend to explore how these informal forces influence information exchange activities and, more importantly, how these informal forces govern the transfer of human capital within the social networks of privately-owned Chinese SME manufacturers. With regard to recruitment practice, past researchers suggest that SMEs face several limitations when hiring knowledgeable employees, such as the lengthy formal recruitment process (Barber *et al.*, 1999; Williamson, 2000), the lack of financial resources to support proper recruitment practices (Marsden, 1994; Cardon and Stevens, 2004); the lack of employer legitimacy (Aldrich, 1999; Williamson, 2000); and the lack of well-established human capital selection procedures (Barber *et al.*, 1999; Leung, 2003). In the section, I wish to conduct a comprehensive study to explore how privately-owned Chinese SME manufacturers take advantage of their social networks in order to acquire skilled workers and so overcome the size limitation of the company and develop a competitive advantage in the marketplace. Finally, with regard to job referral, earlier studies suggest that this plays an important role in



Chinese business hiring (Bian *et al.*, 1997; Cheung and Gui, 2006; Huang, 2008). Social networks allow employees to enhance their employability and so perform better in job searches (Fernandez *et al.*, 2000; Seidel *et al.*, 2000), job matching (Saloner, 1985; Yakubovich and Lup, 2006) and compensation negotiation (Simon and Warner, 1992; Elliott, 2001), which will eventually lead to success for the company. In this section, I wish to take a step further to explore how each dimension of social capital influences the performance of effective job searches, job matching and compensation negotiation. A more detailed discussion about the relationship between the governing force of “social capital” and “*guanxi*” (social capital in a Chinese context) will be presented in the next chapter.

## **2.5 Chapter Summary**

In this chapter, I presented the perspective of knowledge that is used throughout my study. More concretely, I referred to knowledge as a critical resource of an organisation which, by itself or when utilised to reconfigure other organisational resources, can enhance the organizational capability, and discussed the various classifications of knowledge using prior studies in this subject area. I concluded that all types of knowledge determine whether or not an organisation is able to develop its capability and opens up more opportunities for organisations to engage in the marketplace. I then discussed the different types of knowledge and the respective institutions that help to develop knowledge using Crouch’s (2005) categorizations: the state, the market, corporate hierarchy, associations, as well as communities and networks. Given the focuses of this research – privately-owned Chinese SME manufacturers and the Chinese business environment – as well as Confucianism and the socialist market economy, I drew the conclusion that the communities and networks institution is a more appropriate institution to study in this research.

Then, the discussion proceeded to identify the knowledge gap in the current literature to develop appropriate research questions for this thesis. I concluded that the focus of this research is to study the development of knowledge resources through bridging information asymmetries in network-based informal labour market, and to address three important issues in this subject: (1) the informal rules that govern skill availability information transfer and labour matching process within social networks; (2) the employer's ability and strategy for acquiring skilled workers from social networks; and (3) how skilled workers (employees) use social networks to enhance their employability in the Chinese context. Although these three issues appear mutually exclusive, however they are all governed by informal forces, known as social capital (or *guanxi* in the Chinese context). For the informal rules, previous researchers have suggested that *guanxi* predetermines the relationship dynamics among Chinese network actors, but there has been no comprehensive study to date of how the different types of *guanxi* affect the different types of control mechanism that leads to the formation of informal rules. For recruitment practice, past researchers suggest that SMEs face several limitations when hiring knowledgeable employees, such as the lengthy formal recruitment process, but there have been few empirical studies relevant to the context of this research and these that do exist differ in nature from our current inquiry. I aim to explore how privately-owned Chinese SME manufacturers take advantage of their social networks to acquire talented employees and overcome their imitators. Earlier studies suggest that job referrals play an important role in Chinese business hiring, yet few studies have attempted to explore how individual employees use social networks to enhance their employability in order to perform better job searches, job matching and compensation negotiation. In general, I attempt to address these three knowledge gaps in the current literature. In the next chapter, I will draw a connection between social networks, social capital and *guanxi*. I focus on

developing and discussing the link between social capital and *guanxi* in order to enhance the interpretation of the research data.

## CHAPTER 3

### SOCIAL NETWORKS, SOCIAL CAPITAL AND GUANXI

#### 3.1 Chapter Overview

The main aim of this chapter is to present and discuss the connection between social networks, social capital and *guanxi*. It contains three major sections. The first section introduces the concept of social networks and how each of their properties influences the process of knowledge transfer. By reviewing the relevant literature, I provide background information about five properties of social networks: strength of relationship, division, position, centrality, and cohesion. The second section offers a discussion on the concept of social capital and explains how it facilitates the operation of social networks. More specifically, I adopt Nahapiet and Ghoshal's (1998) analytical cluster to group all of the aspects of social capital together into three characteristic dimensions (sometimes called embeddedness): structural, cognitive and relational. In the final section, I attempt to connect these three aspects of social capital to the concept of "*guanxi*", which is closely link with the concept of social capital in the Chinese context because both social capital and *guanxi* draw their resources from different core social relationships. This provides a pool of codes that enable me to connect the specific context of *guanxi* to different dimensions of social capital in my data analysis.

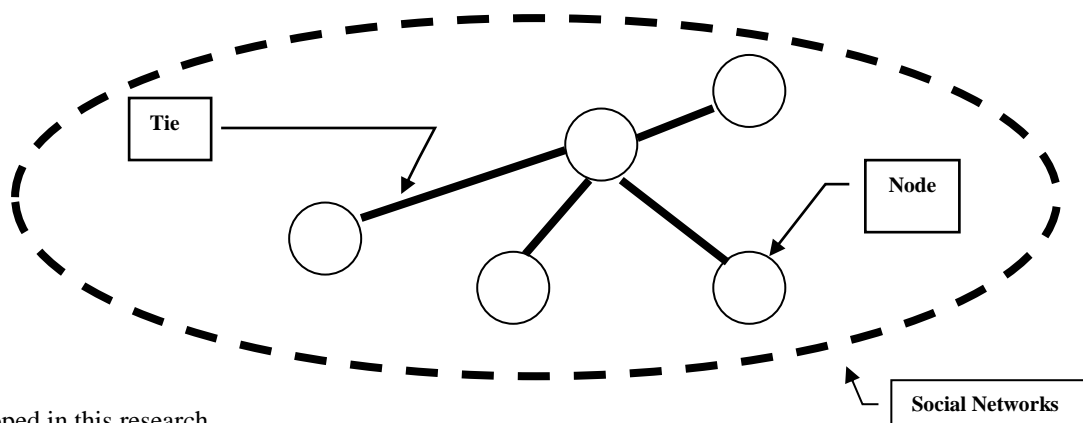
#### 3.2 Social Networks

Despite the fact that developing knowledge resources through social networks has been widely discussed in the management literature, most of the focus has been on discussing the importance of social networks' impact on these practices. For example, Inkpen and Tsang (2005) developed a theoretical framework to discuss how a company uses its social networks

to promote knowledge transfer. My research aims to further our understanding of this subject by focusing on how privately-own Chinese SME manufacturers attain skilled workers by bridging information asymmetries in informal labour markets (that usually can be considered as complex networked systems in Chinese context) to improve the awareness of the skill availability. Field researchers have long recognized that a firm’s network connections can improve its ability to gain valuable knowledge and skilled workers from others, which leads to increased firm competitiveness in the marketplace (Gulati, 1999; Kale *et al.*, 2000; Sorenson *et al.*, 2006). The phrase, “mobility of knowledge”, is used to explain the phenomenon whereby knowledge is shared, acquired, and deployed within social networks (Dhanaraj and Parkhe, 2006). The thinking behind this is that the collective knowledge of all of the actors within a social network is more likely to be more innovative, efficient, and effective than any single actor’s own capability.

A “network” is an area of study in applied mathematics, which aims to explore and calculate the relationship between discrete objects. The same metaphor can also be applied to the relationship between individuals in society (Galaskiewicz and Wasserman, 1994; Wasserman and Faust, 1994). Emirbayer and Googwin (1994) suggest that “social networks” are a series of social relations with specific content. The structure of social networks consists of two parts: a “node” and a “tie” (see Figure 3.1):

**Figure 3.1 Network Structure**



Developed in this research

The node is the individual actor (i.e. a person, group, company, and so on) within the network (Balkundi and Harrison, 2006). Since this research focuses on personal relationships, so the individual actor in this research refers to a person. The connection (both formal and informal) between nodes is known as a “tie” (Balkundi and Harrison, 2006). Parkhe *et al.* (2006) indicate that a “tie” represents specific types of interdependency, such as values, ideas, financial exchanges, conflicts, trade or the many relationships that might exist between the actors. The network structure will become more complex when there are more nodes involved in the network. Since actors are inter-dependent on each other, therefore we cannot consider each one as an isolated individual; rather, their behaviour influences the other actors within the social network. Researchers refer to this phenomenon as “embeddedness” (Wellman and Berkowitz, 1988; Uzzi, 1997; Borgatti and Foster, 2003); or, a better expression, “social capital” (Tsai and Ghoshal, 1998; Tsai, 2000; Inkpen and Tsang, 2005). Balkundi and Kilduff (2005) suggest that embeddedness occurs when an actor enters a network relationship, not with complete strangers, but with the people from within the same community rather outside the community. When an actor is thought to be embedded in a network, the rest of the network actors will consider this actor to be “one of us” and start exchanging resources (i.e. knowledge) with him/her; we can say that these actors have formed a social network relationship.

### **3.3 Social Network Properties**

Strength of relationship, division, position, centrality, and cohesion are the five areas that academics use to describe the nature of a particular social network (Freeman *et al.*, 1989; Wasserman and Faust, 1994; Scott, 2000). Research on the strength of the relationship consists of two general areas: the strong tie-weak tie concept (Brass *et al.*, 1998; Levin and Cross, 2004; Shi *et al.*, 2006) and the density concept (Marks *et al.*, 2001; Balkundi and

Harrison, 2006; Hatala, 2006). Granovetter (1973) indicates that the strength of the network tie is influenced by the frequency, reciprocity, emotional intensity, and intimacy of the relationship. If the actors within the social network have infrequent interaction and indifferent effects, we can view these as characteristic of a “weak tie”. Brass *et al.* (1998) suggest that the actors have little incentive for displaying ethical behaviour in a weak tie situation because this kind of relationship is usually a one-off, private exchange between two individuals that seldom has adverse consequences. On the other hand, if the actors within the network have frequent interaction and each party reciprocates trust and positively affects the others, we then view these as characteristic of a “strong tie”. Krackhardt (1992) and Shi *et al.* (2007) suggest that strong ties make the network actors more accessible and more willing to help each other, such as with the transit of sensitive knowledge.

As well as the “strong tie-weak tie” concept, the strength of a network can also be measured by its “density”. Hatala (2006, p. 56) indicates that “*density is a measure of the level of connectivity within the network, which represents the number of actual links as a proportion to the total possible links that can exist*”. For example, network A and network B represent different company-to-company relationships. Each company had 10 employees, so there is a total of 20 employees. If the two companies in network A have 8 pairs of relationship ties and the two companies in network B have 5 pairs, network A’s social network would be regarded as denser than that of network B. Balkundi and Harrison (2006) suggest that density can measure the strength of a network; the denser the network, the stronger it is. This implies that, besides seeking to construct a single strong relationship with one another, organizations can enhance their network relationships by establishing many interpersonal relationships with the members of both organizations. However, some studies have argued that a high-density network may not be beneficial for the network actors, due to

the high amount of time and effort required to maintain so many connections (Burt, 1997; Krackhardt, 1999).

The division of the social network can be referred to as the “range” of network diversity. Having partnerships with a diverse range of network members allows the integration of different types of knowledge, behaviour, and habits of thought. Granovetter (1973) suggests that a smaller, tighter network provides fewer opportunities to introduce new ideas, while a more open network, with many weak ties and social connections, offers greater diversity in terms of a knowledge base. If firms have connections to other social networks, they are likely to have access to a wider range of knowledge. Pittaway *et al.* (2004, p. 150) indicate that “*formal and informal communication between people with different knowledge, skills and values increases the chance of unforeseen novel combinations of knowledge, which can lead to radical discoveries*”. In other words, if a firm has diverse social connections, it will enhance its opportunity to engage in innovation because it improves its exchange of knowledge. Brass *et al.* (1998, p. 18) suggest that “*similar people tend to interact and that interaction lead to further similarity*”. Therefore, it is better for firms to build up a knowledge base and have a relationship with a wide variety of other network actors than one with only a few (Rogers, 1995; Constant *et al.*, 1996; Uzzi and Lancaster, 2003). Although it is helpful for individual actors to have access to others, this is not always the case. Researchers refer to the absence of a link between the network actors as a “structural hole” (Burt, 1992). Popielarz (1999) suggests that a failure to connect too many other parties with non-similar characteristics can restrict an individual’s ability to acquire and access knowledge. Balkundi and Kilduff (2005) indicate that, if the owners of a business establish a wide range of personal contacts with important representatives in the environment, they tend to do better than those owners who establish a smaller range of such relationships, because those contacts can provide more knowledge for the business.



Besides gaining access to more knowledge, firms can also use a structural hole to establish a strong position in their social network. For example, if company A is connected to both company B and company C, but company B and company C are not connected, then the lack of a relationship between company B and company C represents a structural hole. In this case, Burt (1992) suggests that company A can benefit from the structural hole by controlling or acting as a “middleman” between company B and company C. For example, trading companies derives benefits from brokering transactions between outsourcing manufacturers and purchasing companies. Balkundi and Kilduff (2005, p. 951) advise that the principle of using this advantage should be based on the ability to: “*connect oneself to diverse others who themselves are not connected to each other in order to enhance leadership potential in the informal network of relationship*”. However, Brass *et al.* (1998) also suggest that the exercising of the “structural hole-middleman” strategy can increase the amount of unethical behaviour among the network actors, because the “middleman company” (company A) is in a position to benefit from playing off one party (company B) against another (company C). As a result, this might damage the trust between the network actors.

The third type of network property is “position”. An alternate way of looking at social structure is to shift the focus from observing the entire network structure to the individual organization in the social network. Balkundi and Harrison (2006) suggest that the position of the social network will influence the resources of and potential benefits for the party who occupies it. If the individual organization can position itself strategically in a structurally advantageous position, then it will have greater access to a larger amount of knowledge and social support from its social network (Burt, 1992; Adler and Kwon, 2002). Hakansson and Snehota (1989) suggest that the network position is a relative rather than an absolute concept. It can be informed as the network position means different things to different network actors within the same social network.

Researchers suggest that an individual actor's purpose in forming a social network is to gain access to other actors' resources through network collaboration in order to enhance his/her competitive advantage in the marketplace (Barney, 1991; Stuart, 1998; Ahuja, 2000). When an individual actor engages in a network relationship, the expected value of the exchange is given by the amount of resources that can contribute to the relationship. However, the value of an individual's contribution depends on the function of the individual actor located in that network. If other network actors evaluate and perceive the resource to be valuable, then the individual actor who brought in this resource will be in a stronger position within the social network. In other words, the network position determines the individual actor's value within the entire network. As Hakansson and Johanson (1988) note, when individual actors have resources that are valuable to the network, they have greater bargaining power within the social network to exchange more resources with the other network actors.

The discussion on the position of the social network deals with the structural issue about the different network positions that represent different opportunities for individuals to access knowledge within the social network. The centrality discussion is more specifically related to the individual organization that places itself in a central position that tends to access the desired strategic resources in a social network. Scott (2000) suggests that a critical construct, indicating where an individual organization is positioned within a particular network is its "centrality". In most cases, network actors have more or less access to knowledge depending on single individuals who are usually located in a central position in the social network (Cook and Emerson, 1978). Besides obtaining and accessing knowledge, Sparrowe *et al.* (2001) indicate that centrality can also imply control over knowledge because central individuals can choose from a greater number of alternative individuals with regard to sharing important knowledge.

Scott (2000) suggests that the degree of the centrality can be determined by the “betweenness” and “closeness” of the network actors. Betweenness is the degree to which an individual lies between other individuals in the network. Closeness is the degree to which an individual is near all of the other individuals in a network. If individual organizations have a relatively low degree of betweenness or closeness, there are fewer direct or indirect links required in order for it to reach all of the other actors in the same network. As a result, knowledge tends to flow smoothly without disruption when it passes through an individual organization with a low degree of betweenness or centrality. An individual organization that has a higher degree of centrality usually occupies a formal or informal leadership position in the social network to which it belongs (Baker and Iyer, 1992; Krackhardt, 1996; Balkundi and Kilduff, 2005), since the central organization will have a more comprehensive view of the social network structure and be better able to control the distribution of knowledge and resources. This fits the description of the leadership role, such as providing others with direction and offering resources or knowledge to facilitate the achievements of the followers (House, 1996; Unl-Bien *et al.*, 2000). Therefore, if the network leader lacks task knowledge or fails to pass on critical knowledge in ways that help to enhance the performance of the network, the achievement of the entire network is likely to suffer and vice versa.

Finally, “cohesion” is the level of cooperation under which individual organizations work together in a social network. According to Coleman (1988; 1990), when actors trust each other in a social network, this can diminish the uncertainty of their exchanges and enhance their ability to cooperate in the pursuit of their interests. Many experts suggest that the positive effects of network cohesion typically arise from contexts in which the pursuit of individual goals requires the active cooperation of other players and in which the individuals in a social group develop common goals, based on connectivity and communication (Dunbar, 1996; Gargiulo and Benassi, 2000; Bothner *et al.*, 2004). In other words, the cohesion of the

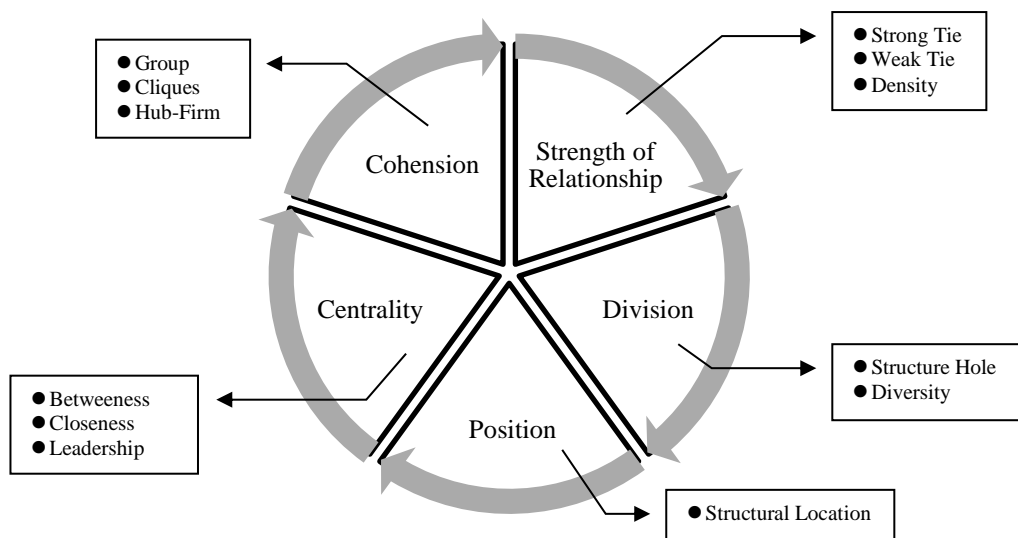
network can be developed through cooperation during periods of social pressure, when the network actors can reach an agreement on their objective, ideas, perspective on important issues, and sense of group identity (Balkundi and Kilduff, 2005).

A small social circle in which the individual actors often have a strong relationship with each other tends to reach a higher degree of cohesion; however, as the size of a network increases, it becomes more fragmented and individual actors start to form subgroups, formerly known as “cliques” (Shaw, 1971; McClellon and Swanson, 1995; Church and Waclawski, 1999). Scott (2000) describes a clique as a subset of individuals who are completely connected and do not appear in any other clique. In other words, a clique contains people who all have a relationship with each other within the subgroup, but have no common relationship with those outside the subgroup. As the number of cliques increases within a social network, it becomes very difficult to maintain its cohesion.

The similarity of the actors’ characteristics and the increased interaction between the actors results in a strong, high-density relationship, referred to as a strong clique (Doreian, 1970). Strong cliques tend to have more power in a social network, because its actors do not hesitate to cheat or steal from each other and provide more support among the actors; therefore it is more likely to have better performance than other cliques within the social network. Balkundi and Kilduff (2005) suggest that different cliques tend to reinforce different interpretations of reality; however, the leader or strong clique has established links and plays a brokerage role between different groups. Because of its high performance and ethical behaviour, other cliques like to connect with an actor in a strong clique in order to seek help and support. As a result, a strong clique or the leading actor in a strong clique usually plays a leadership role in the entire network system to maintain the cohesion among the different cliques.

Dhanaraj and Parkhe (2006) describe this kind of organization (brokerage role) as a “Hub-Firm” which is also described as a key actor, triggering entity, strategic centre, flagship firm and network orchestrator by other authors (Knoke, 1994; Lorenzoni and Baden-Fuller, 1995; Doz, *et al.*, 2000; Rugman and D’Cruz, 2000; Hacki and Lighton, 2001). Dhanaraj and Parkhe (2006) further suggest that a well-established hub-firm can ensure the stability of the social network in several ways, such as enhancing reputation, lengthening the shadow of the future, and building multiplicity. An enhancing reputation strategy can be viewed as the other network actors seek to link themselves to the hub-firm to enhance their legitimacy in the marketplace. Lengthening the shadow of the future strategy refers to the development of a mindset among the network actors about the bond between the future benefits of cooperating in the network and the individuals’ present behaviour. Finally, building a multiplicity strategy means that the hub-firm can organize many joint projects among the actors of the network to expand the scope of their existing relationships. As well as consulting with the hub-firm, Gulati (1995) suggests that common third parties can be brought in as an incentive to display a cooperative image because they serve as a neutral judge to ensure that ethical behaviour is displayed within the social network. The above discussion is summarised below:

**Figure 3.2: Social Network Properties**



Developed in this research

### 3.4 Social Capital

From the social and economic perspective, “*capital*” tends to refer something that can be converted into something that has value (money, property rights) or is able to accumulate benefits (wealth) for the holder (Griffiths and Wall, 2005). Bourdieu (1986), in his classic article, *The Forms of Capital*, describes how capital (depending on its field and function) presents itself in different forms and can be converted (under certain conditions) from one (form) into another. Social capital is defined as “*the aggregate of resources embedded within, available through and derived from the network of relationship possessed by an individual or organisation*” (Inkpen and Tsang, 2005, p. 151). More specifically, there are two level of social capital: individual and organizational. The first level of social capital refers as individual social capital that originates from an individual’s network of relationship and can be considered as private goods. The second level of social capital is organizational social capital that refers as a firm establishing network tie with another firm and can be considered as public good for the members of organization. Inkpen and Tsang (2005, p. 151) later describe how “*these two levels of the social capital an often interrelated*” and “*organizational social capital is created on the basis of individual social capital*”. When an individual or organization owns a certain amount of social capital, he/she/it will be able to access a certain level of knowledge resources from the social network. Social capital plays a dominant role in facilitating the process of knowledge resources development practice through social networks. In this research, I wish to move a step further towards investigating the role that each dimension of social capital plays in developing knowledge resources through bridging information asymmetries in network-based informal labour market by answering my three research questions. To begin with, I first need to distinguish between the dimensions of social capital. Nahapiet and Ghoshal (1998) analytically cluster all of the

aspects of social capital together under three characteristic dimensions (sometimes referred to as embeddedness): “structural”, “cognitive” and “relational”.

### **3.4.1 The Structural Dimension**

The structural dimension of social capital concerns the overall pattern of connections between the actors in a social network (Nahapiet and Ghoshal, 1998). In other words, the structure dimension considers whom the actor tries to reach, how the actor tries to reach them and how the actor can sustain the linkage to the actors that it has reached. In the context of this study, the structural dimension of social capital influences the development of knowledge through creating access to more information or knowledge from a variety of network actors. These aspects, as suggested by Inkpen and Tsang (2005), include network ties, network configuration, and network stability. Network ties refer to the specific ways in which the actors are related, which responds to the question of whom the actors are trying to reach by using a social network. Network configuration, known as the pattern of linkages among the network actors, such as density and connectivity, addresses the question of “how the actor tries to reach them”. Finally, network stability is linked to the changes (entry or withdrawal) of membership in the social network, which focuses on answering the question about how an actor can sustain the linkage to the actors in the social network. In order to generate social capital from the structural dimension, the actor needs to use various techniques to establish various connections to different actors in the social network and to be able to sustain these connections for a long period. More importantly, an actor can only be benefitted if it has the capacity to access knowledge, resources and support from these connections (Adler and Kwon, 2002; Liao and Welsch, 2005).

The actor’s deposits in the structural dimension of social capital provide an advantage in acquiring and distributing the skilled worker that subsequently contributes to organizational learning and obtaining the best talent in the industry (Krackhardt and Hanson, 1993; Burt,

2000; Fisher and White, 2000). Besides, actors who have set up a connection with a broader range of network actors can access more diverse knowledge and these activities usually help them to grasp more knowledge in the social network (Moran, 2005). This puts the actor into a control position and gives him/her greater discretion over deciding on what to do with this knowledge and how to use it to create value for him/her. Burt (1992) suggests that the positioning within the social network can determine the richness of the information received from the social network. Similarly, Scott (2000) describes how someone in a relatively central position (centrality) in the social network will be more likely to access more information. Coleman (1990) and Krackhardt (1992) indicate that hierarchy, density and connectivity will affect the flexibility of information exchange. Furthermore, Wasserman and Faust (1994) and Scott (2000) deal with the diversity of network ties, the relationship between the presence (or absence) of a network tie (structural hole) and actor creativity in using this situation to its advantage. Therefore, we can conclude that four of our five network properties (strength of relationship, diversion, position and centrality) make a contribution toward the creation of social capital in the structural dimension.

### **3.4.2 The Cognitive Dimension**

Nahapiet and Ghoshal (1998) label the second dimension of social capital the cognitive dimension. They refer to the cognitive dimension as “*those resources providing shared representations, interpretations, and systems of meaning among parties*” (Nahapiet and Ghoshal, 1998 p. 244). More specifically, the cognitive dimension of social capital relates to the common perspectives shared within social networks and believes that all of the network actors have a mutual understanding of it (such as values and goals). Bolino *et al.* (2002) describe how this common perspective can be achieved by sharing language (the ability to communicate more effectively) and narratives (the myths, stories and metaphors that the network actor communicate to each other), as they serve to increase the level of



understanding among the network actors and reduce the amount of unexpected behaviour caused by miscommunication. This implies that an actor will have greater social capital in the cognitive dimension if he/she has the ability to communicate well with the other actors within the same social network. Moreover, researchers also suggest that better communication skills also enable individual actors to process and understand knowledge more effectively (Nonaka, 1994; Augoustinos and Walker, 1995; Grant, 1996).

Although an actor's ability to communicate with others does serve as an important element in the development of social capital in the cognitive dimension, however, it may sometimes over simplify the issue to suggest that mutual agreement can always be achieved through communication. In other words, maintaining good communication is only half the job and other elements are required to reach a mutual agreement. I found that Inkpen and Tsang's (2005) two aspect approach provides a foundation to explain how actors tend to work together and enter a mutual agreement in the first place. The two aspects of social capital in the cognitive dimension are sharing goals and culture. Sharing goals refers to the degree to which the network actors share a common understanding and approach to the achievement of network tasks and outcomes. More specifically, the actors within a social network need to have a common or at least compatible understanding of the same objective (i.e. knowledge resources development practice can bring competitive advantage). On the other hand, the sharing culture is about the degree to which norms of behaviour govern relationships. In other words, the actors within a social network need to have an agreement about the set of institutionalised rules and norms that govern appropriate behaviour within that social network. Moreover, Inkpen and Tsang (2005) do not undermine the value of communication by suggesting that it serves as the tool to help the partners to negotiate their position, form a common viewpoint and settle conflicts.

Many researchers offer a view about connecting to social capital in the cognitive dimension. Walker *et al.* (1997) describe how structure holes present opportunities for free-riders to take advantage of the situation and social capital (in the cognitive dimension) can help to reproduce the network order over time while setting up inter-firm cooperative agreements. Lei *et al.* (1997) suggest that, although the diversity between the network actors can lead to more knowledge sharing, however it also become more difficult to manage the cooperation among partners who come from different cultural contexts than those who come from a similar one. Dhanaraj and Parkhe (2006) indicate that hub-firms can help to facilitate communication among the network actors. Larson (1992) describes how the network actors tend to have strong ties if they share the same characteristics (i.e. common goals), and it helps to promote long term cooperation between them. In this dimension of social capital, the three network properties (strength of relationship, division and cohesion) that we identified in section 3.3 contribute to the creation of social capital.

### **3.4.3 The Relational Dimension**

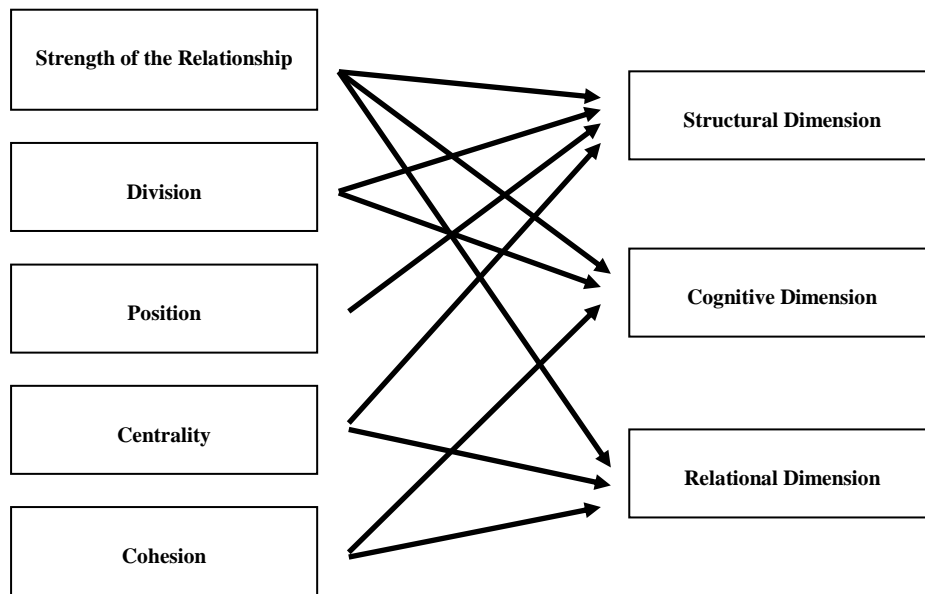
Nahapiet and Ghoshal (1998, p. 224) indicate that social capital in the relational dimension is “*the kind of personal relationship people have developed with each other through a history of interactions*”. While the structural dimension determines the extent and range of the resources that are within an actor’s reach, and the cognitive dimension focuses on the possibility of network actors working together to achieve a common outcome, Moran (2005) describes the relational dimension as establishing how much of the potential in the social network can be realized. The reason is that the central value of social capital in the relational dimension is “trust”, and the actors within the social network will share resources and knowledge with each other to achieve better results (than is possible when each actor works individually) only when trust is present (Granovetter, 1985; Nooteboom, *et al.*, 1997; Uzzi, 1999).

When trust is high, the interactions between the actors in the social network become more active and willing to invest in or share resources with each other. Moran (2005) suggests that trust not only promotes more interaction among the actors in the network, but also reinforces the process of further social capital building. Although initial trust can be built through close personal relationships (i.e. among family members), long term and frequent partner interaction and reciprocity (Granovetter, 1992; Parkhe, 1993; Lesser, 2000), however, in order to sustain trust in the long-run, Inkpen and Tsang (2005) believe that trust can only be maintained when there are clear and transparent reward criteria within the social network. This is because the actor becomes vulnerable when facing potential threats from the other network actors with whom they have shared knowledge and whom are using this knowledge against it (Brass *et al.*, 1998). Therefore, to enhance trust among the network actors, clear and transparent reward criteria will reduce the degree of mistrust among the actors by reducing the doubt and uncertainty.

To understand better the linkage between the network properties and social capital in the relational dimension, several studies offer some examples. Church and Waclawski (1999) and McClernon and Swanson (1995) suggest that “cliques” can be considered as a subgroup within the social network because there is a higher degree of trust among the actors (in the cliques) than among others in the same social network. Uzzi (1997) describe how the closeness and betweenness of the network relationship can increase the familiarity and trust among the actors within the social network. Rowley *et al.* (2000) also mention that strong ties are typically associated with trust in the social relationship. In summary, the strength of the relationship, centrality and cohesion of the network properties influence the shape of social networks in the relationship dimension.

Figure 3.3 summarises the relationship between the network properties and the three dimensions of social capital mentioned in the above discussion.

**Figure 3.3: The Relationship between Network Properties and Social Capital**



Developed in this research

There is clear evidence to suggest that network properties contribute to the formation of social capital. Now, the question that needs to be addressed is: “Do these three dimensions of social capital stand independently?”. Based on Nahapiet and Ghoshal’s (1998) suggestion, the three dimensions of social capital are not mutually exclusion; in fact, they are highly related. Although a study conducted by Tsai and Ghoshal (1998) first tested the associations among the different dimensions of social capital and got affirmative results for only two combinations (structural – relational and cognitive – relational), however they explain that that was because their study only focused on the inter-unit relationship within a single firm; therefore, it is possible for different units to share a common organizational goal and values even when the units do not have a strong interaction. These results were later revised by Liao and Welsch’s (2003) research, which concluded that all three dimensions of social capital are inter-related in inter-firm situations. In the context of this research, I argue that this inter-party relationship exists between the network actors at the organizational level and is also applied at the individual level, given that personal relationships are part of inter-firm

relationships (as discussed in chapter 1). These associations (between the three social capital dimensions) also provide us with a useful platform for addressing the inter-relationships between the five network properties and the reinforcement of social capital by these network properties. I believe that these inter-relationships interact at the social capital level of the network value chain. Each network property makes unique contributions to the creation of social capital in different dimensions. In consequence of the interaction among the different dimensions of social capital, each network property actually reinforces the others' efforts during the creation of social capital. Increasing one's social capital can enhance an actor's growth potential (Liao and Welsch, 2003), which leads to the expansion of the network properties as well as the actor's influence on the social network.

### **3.5 *Guanxi* and Social Capital**

Social capital universally helps to facilitate the exchange among the actors within a social network. However, the relationship between social capital and "*guanxi*" is not quite clear; it is closest to the Chinese expression. Fukuyama (2001) describes how social capital is an informal norm that promotes co-operation between individuals and must be instantiated in an actual human relationship in civil society. As a result, a social norm in that particular society has a tremendous impact on how the social capital is built and exercised in that society. He further describes how the creation of a social norm is usually affected by a society's religion, traditions, shared historical experience and economic development, policy and condition (Fukuyama, 2001). In this research, I focus on exploring the development knowledge resources through bridging information asymmetries in network-based informal labour market in China. Therefore, it is important to understand how social capital is being interpreted in the Chinese context.

Fan (2002) suggests that the term “*guanxi*” is a combination of two Chinese characters:<sup>1</sup>*guan* meaning “to close” and *xi* meaning “link”. *Guanxi* together can be used as a verb (meaning to have a bearing on) or a noun (entities that are connected) (Chen and Chen, 2004). Chang and Lii (2005) and Lee and Dawes (2005) indicate that the concept to *guanxi* can be expanded to include not only the interpersonal relationships or connections in the social network but also a broader range of social connections, which is usually developed and enhanced through reciprocity (giving and returning favours). Researchers suggest that *guanxi* is one of the key factors when conducting business in China because of its many benefits, such as reducing transaction costs (Standifird and Marshal, 2000); establishing business relationships (Wong, 1999); building a strong internal team (Law *et al.*, 2000; Chou *et al.*, 2006); and creating barriers to entry (Fock and Woo, 1998). It implies that *guanxi* can be regarded as a form of “capital” or “resource” that the actors can use to gain advantages in their business practices.

Putnam (2000) suggests that the concept of *guanxi* has a close link with the concept of social capital in the Chinese context. An integrative framework is proposed by Gu *et al.* (2008) that strengthen Putnam’s (2000) argument, indicating that both social capital and *guanxi* draw their resources from different core social relationships. Both Park and Luo (2001) and Gu *et al.* (2008) mention some unique features of *guanxi* which differentiate it from social capital. First, *guanxi* is transferable among parties or from the individual to the corporation, because an individual’s *guanxi* can be viewed as his/her extended representation that others need to treat with respect. Secondly, *guanxi* emphasises reciprocity, and an individual who receives a favour is obliged to return it. Thirdly, the most powerful and reliable *guanxi* is based on kinship and a common social identity which can help to establish *guanxi* initially. Last but not least, because *guanxi* is established and maintained through the

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<sup>1</sup> Fan (2002, p.546) indicates that “a Chinese character may have different meaning when it is used as a noun or verb and when used with another character to make up a phase”.

exchange of favours and does not necessarily involve friendship; therefore it is utilitarian rather than emotional.

According to Park and Luo (2001) the practice of *guanxi* stems from Confucianism, which fostered the broad cultural aspects of collectivism manifested in the importance of networks of interpersonal relations. Qing (2008) distinguishes the differences between individualism and collectivism, and finds that China is a highly collectivist society. In an individualist society, individuals view themselves as independent of collectives and are generally motivated by their own preferences, needs, rights and contracts. In a collectivist society, people tend to define themselves as the constituents of several collectives, such as the family, organization or in-group. They are inclined to sacrifice their personal interests in favour of the goals of these collectives and are most motivated by the norms, duties, and obligations imposed by the collectives. Qing (2008) further suggests that Chinese people divide their social ties into several circles and apply different moral standards to different circles. The inner circle, which comprises the family, expanded family (family ties), and close friends, is governed by the rule of assurance and behavioural expectations. *Guanxi* is therefore conceived as a substitute for formal institutional support when engaging in business transactions (Su *et al.*, 2007). Consequently, some argue that, as the Chinese legal environment evolves, *guanxi* will become less important or lose its legitimacy altogether (Guthrie, 1998). However, at present, many studies continue to stress the significant role played by *guanxi* in the Chinese business environment (Wu *et al.*, 2006; Gu *et al.*, 2008). Park and Luo (2001) report that *guanxi* is the lifeblood of personal relationships and business dealings in Chinese society and, in the present-day, fast-changing Chinese business environment, it has become even more entrenched, with strong and direct implications for social attitudes and business practices.

The significance of social connections in affecting inter-firm exchange has long been recognized in the relationship management literature. “Commitment-Trust Theory”, developed by Morgan and Hunt (1994), suggests that the two values that hold relationships together are commitment and trust. Commitment refers to the involvement in the relationship. Trust refers to the willingness and confidence to continue with the relationship. Among these values, trust is the most essential value in relationship building (Achrol, 1991); without trust, the commitment to a relationship becomes vulnerable. Experts suggest that trust can be built and strengthened by the exchange of relationship benefits (Dwyer *et al.*, 1987; Ganesan, 1994; Palmatier *et al.*, 2006). This paradigm, founded in the context of an individualist culture with established legal and professional institutions, has been the central tenet underlying much of the marketing channel and supply chain research over the past decade (Gu *et al.*, 2008). In China, *guanxi* has been used to facilitate this relational exchange in the daily life of Chinese people. In a sense, firms can improve their market access and growth through their *guanxi* networks. As Gu *et al.* (2008, p. 25) suggest, “*Guanxi offers benefits in major ways: It helps firms connect to partnership firms and government offices, gain access to “insider” information, decode government policy intents, and open up needed resources that are otherwise unavailable*”.

Nevertheless, this kind of informal pressure which governs the behaviour of the network actors is not without negative consequences. Here, I also acknowledge some negative aspect of *guanxi* such as the exclusivity of networks; the danger of cloning – only recruiting like minds to an organisation and shunning diversity, the problems of clientalism and cronyism – looking after friends and family, etc. Gu *et al.* (2008) also found that, although firms can improve their market access and growth through their *guanxi* networks, however *guanxi* can also be a major liability, such as the overburdening of corporate obligations, the domino effect when a network fails, overreliance relationship, and collective biases. For example,



individuals or firms are obligated to reciprocate favours that they may be unable to provide. Further, *guanxi* development has also been equated with corruption and bribery. Steidlmeier (1999, p. 121) suggests that it is very difficult to know when it is proper to give or receive a gift, what sort of gift is appropriate, and what social obligations gift-giving imposes, where alleged “gifts” are actually forms of extortion and bribery. Despite its negative prospect, *guanxi* still plays a critical role in affecting the flow of resources (i.e. knowledge) and a firm’s interaction with the task environment (Qing, 2008). As China continues its economic reform and its property rights remain ambiguous, *guanxi* has become more important for managing uncertainties and external dependency (Park and Luo, 2001). Despite the uniqueness of *guanxi*, it still has a high degree of similarity to social capital, because both *guanxi* and social capital represent the intangible force that requires the network actors’ commitment to respond to one another according to proper social behaviour (Fukuyama, 1995; Taylor, 2000; Szeto *et al.*, 2006). As a result, I introduce the three dimensions of social capital to explain the influence of *guanxi* on social networks by connecting each *guanxi* specification that researchers use to explain the concept of *guanxi* to the appropriate dimension.

### **3.5.1 Structural Dimension of Social Capital and *Guanxi***

The structural dimension of social capital focuses on the value of network relations. The more and the more stable network connections that an actor has, the more social capital that actor has. “*Guanxi-wang*” (*guanxi*-net) and “*guanxi-hu*” (*guanxi*-family) are the *guanxi* specifications related to the structural dimension of social capital. *Guanxi-wang* refers to the whole network work of *guanxi* through which influence is brokered (Paik and Tung, 1999; Zhu, 2004). Tung and Worm (2001, p. 521) suggest that *guanxi* can be expended on all actors within a *guanxi-wang*; therefore the “*obligatory relations may extend to people whom one does not know directly*”. In other words, the actors within the same *guanxi-wang* are

obligated to render favours to each other, even if they do not know each other. On the other hand, *guanxi-hu* is a person, organization or even government department that occupies a focal point in one's social network (McInnes, 1993). More specifically, the relationship between two organizations requires there to exist a strong relationship among the key managers in the organization and those key managers are considered *guanxi-hu* (Wank, 1996). Both *guanxi-wang* and *guanxi-hu* highlight the transferable nature of *guanxi*, because the relationship benefits can be transferred among social networks and from the individual to the organization.

### 3.5.2 Cognitive Dimension of Social Capital and *Guanxi*

In the cognitive dimension, *guanxi* is based on kinship (or close friendships) and a common social identity. From the kinship or close friendship perspective, the Chinese often categorise others into three types of *guanxi*: “*jia-ren*” (family member), “*shou-ren*” (familiar people) and “*sheng-ren*” (strangers) (Yang, 1993; Tsui and Farh, 1997; Chen *et al.*, 2004). In these three types of relationship, *jia-ren* is the closest and the members often share similar beliefs, according to Chinese culture (Yang, 1997). Tsui and Farh (1997) indicate that *shou-ren* usually have a moderate degree of obligation with regard to favour exchange. *Sheng-ren* has little or no sense of sentiment or obligation (Su and Littlefield, 2001). The second way to illustrate cognitive embeddedness is through the existence of common social identities, such as “*tong-xiang*” (the same birthplace), “*tong-xue*” (the same educational institution), and “*tong-shi*” (the same workplace) (Jacobs, 1982; Chen and Chen, 2004). The Chinese character “*tong*” means the same, common, shared, or together. In general, both kinship and a common identity build the foundation of *guanxi*, because Chinese people tend to share some commonalities in these relationships (Chen and Chen, 2004; Chen *et al.*, 2004; Zhang and Zhang, 2006). This is similar to the cognitive dimension of social capital that concerns the common perspectives and beliefs shared by the network actors.

### 3.5.3 Relational Dimension of Social Capital and *Guanxi*

Finally, the relational dimension of social capital is based on the previous interaction between the actors in a social network. “*Renqing*” (a debt to an acquaintance), “*mianzi*” (face), “*huibao*” (a reciprocal favour) and “*xinyong*” (trustworthiness) are the specifications of *guanxi* that share common features with the relational dimension of social capital and draw their influence from reciprocity and utilitarian exchange. Park and Luo (2001) and Standifird (2006) suggest that *renqing* is an informal social obligation to another party as a result of a previous exchange of favours and is often the first step in a series of exchanges in the future. *Mianzi* represents an individual actor’s social and power status that often reflects his/her social position, material wealth, and the collection of favours done in the past as well as the anticipatory future favours that may be received (Yeung and Tung, 1996; Park and Luo, 2001; Chen and Chen, 2004). Lee and Dawes (2005) suggest that *huibao* is a reciprocal favour done by an individual who obtained a favour in the past. In Chinese culture, people who do not repay favours are considered non-legitimated and tend to be excluded from the social network (Hwang, 1987; Su *et al.*, 2007). Lastly, *xinyong* is integrity, credibility, trustworthiness, the reputation and character of a person, or a person’s credit rating in his/her business circle (Yang, 1994). In other words, *xinyong* is a critical component in the establishment of *guanxi*, because without *xinyong* the reciprocation process cannot begin.

In general, the concept of *guanxi* is very similar to that of social capital. The identification of the parts linkage between social capital and *guanxi* helped me to interpret the data for this research. For example, when the informants mentioned that *renqing* plays a very important role in a particular situation with regard to acquire information about a particular skilled worker; I made a subjective judgement, as the relational dimension of social capital is the primary force facilitating this situation. *Guanxi* specifications serve as the pool of codes

(see Table 3.4) enabling me to connect the specific context of *guanxi* with the different dimensions of social capital.

**Table 3.4: The Dimensions of *Guanxi***

Social Capital	<i>Guanxi</i> Specifications
Structure Dimension	<i>guanxi-wang and guanxi-hu</i>
Cognitive Dimension	<i>jia-ren, shou-ren, sheng-ren, tong-xiang, tong-xue and tong-shi</i>
Relational Dimension	<i>renqing, mianzi, huibao and xinyong</i>

Developed in this research

### 3.6 Chapter Summary

In this chapter, I reviewed the relevant issues related to social networks, social capital and *guanxi*. The first section introduced the concept of social networks and provided the main theoretical discussion of a firm’s strategies for using social networks to form its skills pool. A social network refers to a series of social relations that foster repeated and enduring exchange relationships between the actors in the network. Experts have long recognized that a firm’s network connections can improve its ability to gain valuable knowledge and skilled workers from others, which leads to increased firm competitiveness in the marketplace. In order to understand the nature of social networks further, I identified and discuss five primary social network properties that have been studied extensively in the social science research (strength of relationship, division, position, centrality, and cohesion), which describe the nature of a particular social network. “Strength of relationship” refers to the level of connectivity within the network. The “division” of the social network is related to the diversity of the network members. “Position” means the relative location of the individual actor to the other actors in the social network, while “centrality” is more specifically related to the individual actor placing him/her/itself in a central position in a social network. Finally, “cohesion” is the level of cooperation under which actors work together in a social network.

I then introduced the concept of social capital. Social capital can be considered as the resources available to individuals or organizations within the social network. It can influence the flow of information and the attitudes and actions of the network actors. As a result, it provides an important platform from which to interpret the actors' behaviour within a social network. I first distinguished the different dimensions of social capital. The structural dimension of social capital concerns the overall pattern of the connections between the actors in a social network. The cognitive dimension of social capital relates to the common perspectives (i.e. mutual understanding) shared within social networks. The relational dimension of social capital focuses on the role of the ties between the actors and their interactions.

I concluded this section by introducing the concept of *guanxi* in Chinese culture and its function in the Chinese business environment. *Guanxi* has been widely used in studies of Chinese organizational and political behaviour with reference to social connections. This is because *guanxi*: (1) is transferable among parties or from the individual to the corporation; (2) emphasises reciprocity, and an individual who receives a favour is obliged to return it; and (3) is based on kinship and a common social identity which can help to establish *guanxi* initially. I included its influence in my social network map, and attempted to connect social capital with *guanxi*, which will assist me in interpreting my research data. *Guanxi-wang* (*guanxi*-net) and *guanxi-hu* (*guanxi*-family) are the *guanxi* specifications related to the structural dimension of social capital. *Jia-ren* (family members), *shou-ren* (familiar people) and *sheng-ren* (strangers) are similar to the cognitive dimension of social capital that concerns the common perspectives and beliefs shared by the network actors. Finally, *renqing* (a debt to an acquaintance), *mianzi* (face), *huibao* (a reciprocal favour) and *xinyong* (trustworthiness) are the specifications of *guanxi* that share common features with the relational dimension of social capital and draw their influence from reciprocity and utilitarian exchange. These

*guanxi* specifications serve as the pool of codes that enables me to connect the specific context of *guanxi* with the different dimensions of social capital. In the next chapter, I will present the research methodology used in this research.

## CHAPTER 4

### METHODOLOGY

#### 4.1. Chapter Overview

The purpose of this chapter is to explain the research methods used to answer the research question developed and discussed in the literature review chapter. My underlying epistemological assumption is that the critical factor in privately-owned Chinese SME manufacturers' ability to acquire, transfer and sustain skilled workers using social networks is the firm's members' "social capital" (closely linked to "*guanxi*" in the Chinese social context) that enables them to access the tacit knowledge within the social network. This research relies on the qualitative approach and uses the in-depth semi-structured interview as the method of choice for collecting the research data. Snowball method is used to collect as many participants as possible from among the engineers who work for a Chinese die-casting company in the Pearl River Delta region as my sample group. In discussing the qualitative methods, I explain in detail the selection of the interview candidates, outline the design and construction of the interview questions and provide details of how the scripts were analysed.

#### 4.2 Research Objectives and Choice of Method

The purpose of this research is to study the patterns of developing knowledge resources through bridging information asymmetries in network-based informal labour market. The literature review chapter identified three research questions that can be viewed as gaps in the literature on the manufacturing industry in the Chinese context. Firstly, I examine whether there exists informal rules within the social network and how the network actors' collective action (or pressure) can enforce these. Given that many social networks may be viewed as "loosely coupled coalitions" (Provan, 1983, p. 83) that lack of formal rules, it is very likely

that individual actors will cheat (or act unethically) to maximize their own benefit within a network community (Granovetter, 1992; Brass *et al.*, 1998). Solving this “free-rider” problem, Crouch (2005) suggests, depends on whether all of the actors within the network can collectively place informal pressure on the actor who is behaving unethically and insist that that actor corrects its action. Szeto *et al.* (2006) explain that Chinese businesses have unique ways of dealing with the informal rules for business relationships. My objective in this research is to identify these informal rules and explore they are used in governing the transfer information about the skill availability and labour match process.

The second research question is about what is the owner or senior managers’ strategy for acquiring skilled workers from the social network. Social networks can also help a company to find talented personnel who already possess the necessary knowledge (Petersen *et al.*, 2000; Marsden and Gorman, 2001; Castilla, 2005; Leung *et al.*, 2006; Ortiz *et al.*, 2006). Crouch (2005) suggests that this is particularly true for a sector that is heavily involved in research and development, because the certified knowledge is not yet widely available. In the research, I focus on recruitment practices through social networks, particularly in the Chinese die-casting industry; where constant technical upgrades are inevitable and many of the up-to-date manufacturing processes are not yet taught within the formal education system (see below for a more comprehensive description).

The third research question is similar to the second one, except that it is from the employees’ (skilled workers - engineers) perspective. I try to seek answers regarding how Chinese engineers use social networks to enhance their employability in the SME sector. Crouch (2005, p. 103) mentions that, “*employees are similarly able to use local networks to discover new sources of employment and, more important for our current purpose, how skill needs in their field are developing*”. An enormous amount of literature has addressed the fact that some job applicants use social networks as a bridge to enter an organization, because



network connections allow individuals to gain influence with the job assigning authorities while at the same time providing updated job information to them (Bain, 1997; Marmaros and Sacerdote, 2002). In this thesis, I want to identify how employees use social networks to enhance their own “employability”.

### **4.3 Research Methodology**

Saunders *et al.* (2006) point out that positivism and interpretivism are the two main ways in which social science researchers think about the development of knowledge. Positivism derives from the philosophical stance of the natural scientists and utilises a highly structured methodology to analyse quantifiable data (Gill and Johnson, 2002; Saunders *et al.*, 2006). Positivist research is often underpinned by the ontological assumption of realism, according to which a reality exists which is independent of human thoughts and beliefs. In contrast, interpretivism aims to understand the social behaviour of the research participants. Interpretivist research is often underpinned by the ontological assumption of constructionism, according to which social phenomena are produced through social interaction and are constantly being revised. In terms of this, the quantitative methods that natural scientists adopt cannot be used effectively to explore the pattern of developing knowledge resources through bridging information asymmetries in network-based informal labour market in this study. This study lies within an interpretivist epistemology research stream, where the world is explored and analysed within the social context of the data collected (Grix, 2004), which emphasizes that individuals see and understand things differently and no one has the answer (Denzin and Lincoln, 1994). A subjective interpretation of reality, based on a relatively small number of in-depth cases, is a source for building the theoretical frameworks and developing the concepts in this research.

The epistemological stance refers to a particular form of knowledge that specifies the precise nature of the laws, truth, belief justification, and relationships among social facts (Skinner, 1957; Pugh and Hickson, 1976; Morgan and Smircich, 1980). In other words, different worlds have different assumptions so that they reflect and imply different grounds of knowledge about their own particular world. Within the scope of this study, these issues concern an individual actor's ability to utilize his/her social capital to access or acquire skilled workers through social networks. Therefore, my epistemological position is that the developing knowledge resources through bridging information asymmetries in network-based informal labour market is closely related to its actors' ownership of social capital in a specific context and their ability to utilize their social capital to acquire skilled workers through social networks.

Research methodology is divided into qualitative and quantitative, which are two completely different approaches in the field of research. The deductive approach is about reasoning from more general issues to specifics (i.e. theory → hypothesis → observation → confirmation) and hence is called the “top-down” research approach. On the other hand, the inductive approach works from specific issues to general ones (i.e. observation → pattern → tentative hypothesis → theory). Therefore, it also called the “bottom-up” research approach (Saunders *et al.*, 2006). The qualitative method takes inductive approach, and is largely associated with interpretivism that views all knowledge as a matter of interpretation, whilst quantitative methods are associated with positivism, that holds that the only authentic knowledge is based on actual sense experience (Carson *et al.*, 2001). Quantitative research takes the deductive approach, and collects, manipulates, and analyses data to support or reject a hypothesis that is a proposed explanation for an observable phenomenon. Comparatively, qualitative research focuses on obtaining an in-depth understanding of human behaviour and also the reasons behind such behaviour (Cooper and Schindler, 2003). In other words, the

qualitative method investigates the why and how, compared to the what, where, and when, as is usual in quantitative research; thus, smaller, more focused samples are needed rather than larger, random samples.

In recent years, the qualitative method has become more prominent in social science and organizational studies, given that the nature of the study often emphasises descriptions of natural or social events and an understanding of a social situation, role, group or interaction (Bryman and Bell, 2007). This is in line with Robson's (2002) description of these studies as seeking to "*understand the procedural affairs of the targeted social phenomenon*". More specifically, qualitative research focuses not on the truth of a statement itself but on the understanding of people; on how things happen rather than the fact that they happen. As a result, the main strength of qualitative research is that it can study phenomena that are unavailable elsewhere, whilst quantitative research is mainly concerned about establishing correlations between variables (Stiles, 1999; Silverman, 2006). The difficulty in defining an operational definition in quantitative research, as well as its inability to describe how a phenomenon is locally constituted in a specific context, enables some quantitative research to make merely a "*necessarily lopsided and limited contribution*" to social research (Silverman, 2006, p. 43).

In this thesis, I used the inductive/qualitative method to study the behaviour of privately-owned Chinese SME manufacturers in Guangdong province in China. I am not attempting to create new theory about *guanxi* and social relationship; however I attempt to use the existing social capital concept and associated *guanxi* specifications to interpret the data. Bonoma (1985) suggests that, given that the use of the deductive approach can produce no more information than is contained in the premises, some researchers have revived the inductive and qualitative approaches as alternative paths to scientific learning. The inductive approach is used in this thesis for conducting a qualitative study on how the actors utilize their social

capital to acquire skilled workers. Greenfield (1996, p. 8) defines the inductive approach as the “*process of developing a theory by inspecting individual case*” and it is a type of generalization. Researchers use the inductive approach to observe a specific proposition and infer general propositions about it.

Blumberg *et al.* (2005) explain the inductive approach well when they describe how inducing something involves drawing a conclusion based on one or more particular facts or pieces of evidence. The conclusion is only the hypothesis, explaining the facts, and the facts support the conclusion. To illustrate this, suppose that an engineer in a firm uses his/her connections to acquire the necessary knowledge to develop a new industrial part. Under such circumstances, we might ask: “How can this particular engineer access this kind of information while others cannot?” A likely answer is that this engineer knows someone who has this kind of information and, more importantly, has the ability to persuade him/her to share this information with this engineer. The conclusion supports the inductive approach, because we know from experience that knowing someone who has the information that we need is the beginning of process of developing knowledge through social networks. I also know that, if this engineer can persuade others to share information with him/her, he/she must have the ability to influence the behaviour of the other actors in the social network.

The qualitative approach is about exploring issues and understanding phenomena, and aims to gather an in-depth understanding of behaviour and the reasons that govern such behaviour (Berg, 2004; Flick, 2009). The scope of the data and phenomena collection is guided by the unit of analysis, which depends on the research questions (Yin, 2003b). There are two primary ways to analyse qualitative data in management research: case-base and individual base. The case base analysis can be used to understand the meaning and situation of a firms’ behaviour (Merriam, 1998) and the individual base analysis can be used to understand individuals’ attitudes and experiences in a given situation (Blumberg *et al.*, 2005).

As this research aims to explore the development of knowledge resources through bridging information asymmetries in network-based informal labour market, at first glance, the case-base analysis appears to be useful for this proposed research. However, there are two reasons why this approach might be problematic. The earlier discussion clearly stated that *guanxi* arises from personal relationships rather than organizational-based ones. It emphasises how individuals interact with other network actors. As a result, the responses shared by the owner and individual engineers (includes senior managers) may not fully represent the behaviour of the selected organization (the selected case). Secondly, I gained access for conducting in-depth interview, but could not access any other data (i.e. business data) about the firms. Therefore, using the individual as unit of analysis was more suitable for the research. At the same time, I also recognize that, in SME situation, the decisions of owner or senior managers can represent to a strong degree of the action of the firm, given the power of owner-managers (Ghohadian and O'Regan, 2006; Richbell *et al.*, 2006) and interviews with senior engineers was also related to their work situation and to the actions of the firm. In sum, I decided to use the individual as the unit of analysis, and then made connections to the actions of the firm from the micro-level in order to explore how individuals utilise their relationships to develop knowledge resources by bridging information asymmetries in network-based informal labour market.

#### **4.4 Sampling**

As mentioned in the introduction chapter, the majority of newly established Chinese manufacturers are small and medium sized enterprises (SMEs). Unlike large firms, SMEs tend to be constrained in terms of their capability, for instance, to keep pace with market changes. Large firms tend to exhibit more innovative activity than their smaller counterparts, though at times this varies across industries (Acs and Audretsch, 1988). According to Russo

and Perrini (2010), large firms and SMEs have different idiosyncrasies that lead to different strategic-orientations with regard to many aspects of their business function. Large firms manage their external relationships by starting within the group of subsidiaries that often characterise their organizational structure. They can access a large amount of external financial capital to fuel their research and development activities – but many used retained income. On the other hand, SMEs tend to be internally financed with limited cash available to invest in research and development – but many use venture capital to start or expand. According to Liu (2007), the lack of financial support is a major stumbling block to SME development in China. In particular, SMEs are beset by the poor credit guarantee system, the dearth of financial institutions supporting SMEs, the extremely high stock market threshold, and their inability to obtain bank loans owing to their imperfect management and poor accounting systems that discourage banks from lending to them. To survive, grow and compete with the large players in the market, SMEs must establish and maintain relationships within their entire social network to seek to establish correlated actions with regard to knowledge sharing, and research and development (Smeltzer *et al.*, 1991; Baum *et al.*, 2000; Pittaway *et al.*, 2004; Wu, 2008). More importantly, many of these relationships are started or based at the individual level (Perrini and Russo, 2008).

According to the definition of the National Bureau of Statistics of China (2010),<sup>2</sup> large enterprises in the industrial sector must fulfil all of the following requirements:

- Employees: must be equal to or greater than 2,000
- Annual revenue: must be equal to or greater than RMB ¥ 300,000,000
- Capital investment: must be equal to or greater than RMB ¥ 400,000,000

All three indices must be fulfilled simultaneously, or it cannot be considered as large enterprise. In other words, a company that has lower figures with regard to its employees,

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<sup>2</sup>[www.stats.gov.cn](http://www.stats.gov.cn)

annual revenue and capital investment than indicated in the indices presented above can be considered an SME (less than 2000 employees, less than ¥ 300,000,000 annual revenue and less than ¥ 400,000,000 capital investment). Harvie and Lee (2005) suggest that, because of the country's social conditions and economic development, there is no regional, or indeed global, consensus on the definition of SMEs. The European Union standard<sup>3</sup> for SMEs is: employees < 250; annual revenue < €50,000,000; capital investment < € 43,000,000. Despite the difference in the number of employees hired by them, SMEs in both China and the European Union make a similar economic contribution,<sup>4</sup> possibly because China has a low cost labour force, and therefore its SMEs can take advantage of this by investing in labour intensive production processes. According to Liu's (2007) work on SME development in China, a total of 4,459 large companies accounted for 0.19 percent of the total number of enterprises registered in the country; 42,291 medium-sized businesses, or 1.78 percent; and 2,327,969 small enterprises, or 98 percent. Overall, SMEs accounted for up to 99.7 percent of the total number of companies operating in China at the time, and the business revenue from the manufacturing industry accounted for 52.8 percent of the total.

From among the many subdivisions of the industrial sector, in this research, I chose to study the "die-casting" industry in particular. According to the description by the North American Die-Casting Association,<sup>5</sup> die-casting is a process of forcing molten metal under high pressure into reusable steel molds, which enable the manufacturer to produce complex shapes with a high degree of accuracy and repeatability engineer parts. These engineer parts can be used as important components for many products, from automobiles to toys. The design of the die-casting part is a very complex process, requiring experience, domain knowledge, and problem-solving knowledge (Yagel *et al.*, 1995; Lee and Lou, 2002). It always involves a series of decisions, from the selection of the material, engineering structure

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<sup>3</sup>[http://ec.europa.eu/enterprise/enterprise\\_policy/sme\\_definition/index\\_en.htm](http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm)

<sup>4</sup>China: ¥ 300,000,000≈€ 30,868,946; ¥ 400,000,000≈€ 41,158,595 (exchange rate in July 25, 2009)

<sup>5</sup><http://www.diecasting.org/faq/>

(mold and part), machinery technique, surface finishing and so on. Each decision during the design phase can be viewed as a trade-off between the cost and overall part performance. Although the advanced computer-based technology (flow assimilation, Pro-E, AutoCAD, etc.) helps to reduce these time consuming process, however skilled engineers are still required to feed inputs into the computer. Since each individual die-casting part can be highly specific to a particular function under a certain circumstance, therefore the knowledge about designing the engineering structure of a mold and part can be highly specific. In addition to its complexity, the design of the finished product may very well change from year to year, leading to frequent changes in the design of the die-casting parts. As a result, the individual's experience of designing and producing engineering parts using the die-casting process can be categorized as knowledge (Lissoni, 2001; Techakanont and Terdudomtham, 2004; Rutherford and Holmes, 2008), and individual engineers who possesses this kind of knowledge as skilled workers (i.e. engineers).

A study conducted by Kuchiki (2006) offers a good overview of the die-casting industry in China. According to Kuchiki's (2006) observation, there are three clusters of die-casting industries in the coastal areas of China: Zhejiang, Guangdong and Shandong province. Among these three clusters, the development of industrial activities in Guangdong and Shandong province have been particularly enhanced by the migration of skilled labours from overseas (particularly Asia) and other Chinese provinces. Although many SMEs have long existed in Shandong province, however a number of giant state-owned enterprises have led the die-casting industry there (Kuchiki, 2006). Consequently, Guangdong province, the host of the Pearl River Delta, appears to be more suitable for my research. Wu's (2007) study reveals that the total die-casting product volume in Guangdong province was 328,000 tons in 2006, while only five enterprises have the capacity to produce more than 10,000 tons per year. This implies that there are a few dominant companies in this region and that almost all of the



other companies can be characterised as small players (SMEs). Given the rich tradition whereby foreign companies, who bring in new ideas and talent (knowledge transfer from foreign investors), are the driving forces behind the industrial activities in this region, many companies (and engineers are willing to accept new development ideas and manufacturing concepts, such as energy saving technologies (Wu, 2007). In view of the above points, the innovative environmental setting in Guangdong province is similar to Lam's (2002, p. 78) description of Silicon Valley as "*an extremely mobile and open labour market*" which encourages "*risk-taking behaviour and entrepreneurial start-ups contributing to the dynamic adaptive capability of the region*", and promotes the development of knowledge through social networks. Lam (2002) describes the learning environment in Silicon Valley, where, although employees enter the labour market with high level specialised qualifications, they then continue to learn through project-based work and solving cutting-edge technical problems using their personal and professional networks. However, the situation in die-casting industry is somewhat different from that in Silicon Valley. The key difference here is that the die-casting industry is a capital intensive industry that survives by outsourcing contracts to other companies. Moreover, the business environment in the die-casting industry means the necessary equipment is rarely leased to individuals who wish to undertake independent engineering projects, unless these are assigned by the company. As a result, there are very few opportunities for engineers to survive by engaging in self-employed project-based work. In other words, engineers need to be employed by an organization in order to perform knowledge related work.

Chinesediecasting.com, one of the leading providers of a knowledge platform for the die-casting industry in China, is a good source of knowledge for my purposes. The organization is headquartered in Dongguan City, which has the largest number of renowned die-casting

manufacturers in Guangdong province.<sup>6</sup> The location offers an advantage for the company to collect rich knowledge about die-casting companies, especially in Guangdong province. The membership scheme that this website offers ensures the continuity of accessing the correct contact knowledge, enabling me to establish communication with these companies. Up to 2009, there were 3,697 die-casting companies listed in the Guangdong province. From this list, I focus on four specific sub-categories of SME: “Surface Treatment” (N = 101), “Die-casting Part Machinery” (N = 418), “Die-casting Mold” (N = 138) and “Die-casting Part Subcontractor” (N = 485). These four sub-categories (total N = 1,142) represent the heart of the die-casting industry in terms of manufacturing, and are directly involved in the process of designing and producing die-casting parts, so they formed an initial contact list for my research.

The purpose of this qualitative research is to explore how engineers working for privately-owned Chinese SME manufacturers using their contacts and influence through social networks by addressing three research questions. The chosen research method is the “in-depth semi-structured qualitative interview”. Byrne (2004, p. 182) suggests that *“qualitative interviewing is particularly useful as a research method for accessing individual’s attitudes and values – things that cannot necessarily be observed or accommodated in a formal questionnaire”* and *“it is able to achieve a level of depth and complexity that is not available to other, particularly survey-based approaches”*. The in-depth interview, in particular, aims to explore the experience of other people and the meaning they make of that experience, in comparison with the regular qualitative interview that focuses on getting answers to pre-designed questions, testing hypotheses and evaluating a situation or theory (Seidman, 2006). Since the focus of this thesis is on exploring how privately-owned Chinese SME manufacturers developing knowledge resources through

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<sup>6</sup>[www.chinesedicasting.com](http://www.chinesedicasting.com)

bridging information asymmetries in network-based informal labour market, the in-depth qualitative interview method enables me to assess the experience of the firms' engineers in this area corresponding to my research questions.

#### **4.5 Interview Questions**

Since the interviews took place in China and the majority of Chinese engineers are unable to communicate fluently in English, therefore I used either Mandarin or Cantonese to conduct the interviews. A standard format was generally followed for the interviews (see Appendix 1). After being given a brief description of the research project, each informant was asked four broad ranges of questions, as listed above. There are two different groups of questions in each script: "Type A" and "Type B". The former are structured questions, consisting of my three primary research questions. The purpose of the "Type A" questions is to collect the informants' initial responses to my research question. I asked the informants to give (at least) one example for all of their responses, so that I can use these later to confirm their insights into their knowledge. The "Type B" questions are unstructured, and their purpose is to ask the informants to expand on their answers or describe their examples in further detail. These questions provided a structure for each interview, but it was frequently necessary to explain and clarify some of the questions (such as defining the conditions to which I was referring), as well as to probe deeper by asking additional questions to elicit examples, illustrations and other insights. As more informants were interviewed, I started to ask them to comment on other informants' (without revealing their identity) situations and claims, and to reflect on their own views of those situations.

## 4.6 Data Collection

Snowball sampling method was used to collect as much data as possible (Kalton and Anderson, 1986; Faugier and Sargeant, 1997; Patton, 2002). In this sense, I asked the informants to recommend some of their colleagues to participate to this research. Once the informants expressed an interest about participating in my research, I then arranged a time and began conducting interviews with 2 organization owners and 5 senior engineers who had rich experience in the industry for my pilot study. In these initial interviews, I sought detail descriptions of some of the key terms, such as social network, job information acquisition, and so on, to help the informants to understand my questions better. I then interviewed a broad range of informants from different companies.

In total, I interviewed 86 informants, who were drawn from 13 privately-owned Chinese SME manufacturers. All of the informants felt that the interview subject touched on a sensitive aspect of their business and position, so no one wished to be tape-recorded. Moreover, the majority of informants asked for the interviews to be conducted in a private and informal environment outside their company (i.e. a private/VIP dining room), where they feel more comfortable to express their point of views of interview questions. To compensate, I have taken the follow steps to help me gather as much information as possible. Firstly, I had to take detailed notes during the interviews and asked the informants to verify their key points during the interviews. Secondly, I adopt certain techniques such as using shorthand notes in Chinese, asking the interviewees to repeat their sentences if I sensed that they might be important for the findings, and checking my notes with the interviewees at the end of each interview. Thirdly, towards the end of every interview, I spent some time going through my notes with the interviewee to ensure I recorded their words correctly. Fourthly, after finishing every interview, I spent considerable amount of time in translating and organizing the notes taken from the interview into proper transcripts. Fifthly, I compared the responses from

different interviewees from the same company in order to correlate factual information on their companies. If I had any queries, I contacted them by telephone or e-mail to request clarification. They appeared happy to assist me in this fashion, on condition that all of my phone calls or e-mails were directed to their personal phone number and e-mail account during non-office hours. The total length of the field work was around six months (involving three visits to China during the Christmas and summer vacations, varying in length). This was an extremely time-consuming and exhausting process. As a consequence of following quite detailed procedures to cross-check the words of the respondents, I was able to produce long quotes, which are presented in the empirical sections of this thesis. However, I acknowledge that even though I tried my best to ensure that I have written everything down that was said during the interviews, inevitably, I will have missed some of the words, but through a careful process of checking I am confident that the ethnographic data is accurate. The limitations of my methods are addressed in the conclusion section.

Due to the confidentiality agreement made with all of the informants, I cannot disclose their names or organization. Out of the 86 individuals interviewed, 13 are business owners and 73 are engineers (see Table 4.1 and also Appendix 2 for more details).

**Table 4.1: Companies**

<b>Factory</b>	<b>Type of Factory</b>	<b>Location</b>	<b>Annual Turnover ( RMB¥ )</b>	<b>Employee Numbers</b>	<b>People Recruited or Job Referred through Social Network ( % )</b>	<b>Number of People Interviewed</b>
<b>1</b>	Die-casting Molding/Tooling	Huizhou	11,700,000	56	85	5
<b>2</b>	Die-casting Molding/Tooling	Guangzhou	9,800,000	33	90	4
<b>3</b>	Die-casting Molding/Tooling	Foshan	10,600,000	105	68	7
<b>4</b>	Die-casting Part Machinery	Foshan	177,000,000	864	56	9
<b>5</b>	Die-casting Part Machinery	Huizhou	38,400,000	223	70	5
<b>6</b>	Die-casting Part Machinery	Dongguan	98,000,000	576	67	7
<b>7</b>	Die-casting Part Machinery	Foshan	156,000,000	622	61	7
<b>8</b>	Die-casting Part Subcontractor	Shenzhen	69,000,000	269	71	4
<b>9</b>	Die-casting Part Subcontractor	Foshan	196,000,000	788	52	9
<b>10</b>	Die-casting Part Subcontractor	Dongguan	260,000,000	1180	50	10
<b>11</b>	Die-casting Part Subcontractor	Dongguan	279,000,000	1020	48	12
<b>12</b>	Surface Treatment	Foshan	10,600,000	146	78	4
<b>13</b>	Surface Treatment	Jiangmen	7,900,000	89	80	3

\* Female N = 11; Male N = 75; Age Range = 23 ~ 62

A total of 13 manufacturers were included in the sample. Although I successfully conducted all 86 interviews, a potential challenge might be the low representation of the companies. However, I believe that this will not make my conclusions unrepresentative because I also invited the informants to share their experience about their previous employment in the interviews. 56 (out of the 73) engineers had changed jobs at least once (from one manufacturer to another) in the past 4 years and shared their experience of this with me. The personal interviews typically lasted around 60 to 75 minutes. The information obtained from these interviews afforded novel insights into the subject of my research questions. In many instances, I returned to the informants and asked them to verify some of their points until I had as complete a picture as possible of their perspective on how to bridge

information asymmetries in network-based informal labour market. Through the large number of new insights that emerged from the study, I was able to focus on the issues that were relevant to this research as well as those that made the greatest contribution to and offered the most potential for stimulating future research.

#### **4.7 Data Analysis**

There are three general steps in qualitative data analysis: transcription, coding and analysis (Greenfield, 1996; Fisher *et al.*, 2004; Blumberg *et al.*, 2005). Since all the notes are taken in Chinese, the first step is to transcribe and translate all Chinese notes into English text. Sometimes, the interviewees used Chinese idioms and technical jargon to describe specific situations, many of which are difficult to translate directly into English; therefore, I had to spend extra time clarifying the details with the informants in order to avoid losing their meaning in translation.

The second stage was the coding, for which I used Nvivo software to assist me. I acknowledge that Nvivo is a just tool for analysis, and that using software does not automatically make the data analysis more valid. A high quality data analysis still relies on good analytical work by the author (Gibbs, 2002). All of the approved interview transcripts were translated into English, input into Microsoft Word and loaded into Nvivo software. I then used the Nvivo function to code the passages that were relevant to my research questions. In qualitative data analysis, researchers usually obtain rich information. To gain a better understanding of the data, the researcher needs to classify the information into relevant groups. This is a time-consuming process for the researcher and it is easy to lose track of the data sources. NVivo software can help with the use of the qualitative method and may reduce the confusion inherent in data analysis (Richards, 1999; Gregorio, 2000; Welsh, 2002). Codes and categories may be created from different sources, such as: research objectives (Thomas,

2003), literature review, researcher’s values and prior experiences, researcher’s theoretical orientation, etc. (Bulmer, 1979, Miles and Huberman, 1994). This process involves: initial reading through the text; identifying specific segments of information; labelling the segments of information to create categories; reducing overlap and redundancy among categories; and creating a framework incorporating the most important categories. During the coding process, I coded each passage according to the corresponding research questions. Table 4.2 provides an example of the codes for my first research question.

**Table 4.2: Coding Sample**

Research Questions	Coded
<p>How do the informal rules and conditions use in the knowledge resources development practice context regulate the cooperation activities within social networks?</p>	<ul style="list-style-type: none"> <li>• Informal Rule Identification</li> <li>• Rule Creation Process</li> <li>• Coverage of Rules</li> <li>• Rule Enforcer</li> <li>• Punishment</li> <li>• Structural Dimension of Social Capital - <i>Guanxi-wang</i></li> <li>• Structural Dimension of Social Capital - <i>Guanxi-hu</i></li> <li>• Cognitive Dimension of Social Capital - <i>Jia-ren</i></li> <li>• Cognitive Dimension of Social Capital - <i>Shou-ren</i></li> <li>• Cognitive Dimension of Social Capital - <i>Sheng-ren</i></li> <li>• Cognitive Dimension of Social Capital - <i>Tong-xiang</i></li> <li>• Cognitive Dimension of Social Capital - <i>Tong-xue</i></li> <li>• Cognitive Dimension of Social Capital - <i>Tong-shi</i></li> <li>• Relational Dimension of Social Capital - <i>Renqing</i></li> <li>• Relational Dimension of Social Capital - <i>Mianzi</i></li> <li>• Relational Dimension of Social Capital - <i>Huibao</i></li> <li>• Relational Dimension of Social Capital - <i>Xinyong</i></li> </ul>

In this example, I produce a total of 17 separate codes for this particular research question. For example, when the interviewees’ answers describe a particular type of informal rule (i.e. always give a gift in return when someone does you a favour), I will code the passage as “informal rule identification”. The coding helped me to focus on specific groups of passages that answer my concerns about the research questions without having to go through all of the documents. The identification of the relationship between *guanxi* specifications and social capital dimensions, presented earlier in this chapter, also helped me to categorise the responses from the interview informants for which I coded the data inductively, looking for emergent themes related to my research questions: (1) How does



informal rules and conditions govern the transfer information on skill availability and labour matching process?; (2) What is owner and senior managers' strategy to acquire the skilled workers from the social network?; and (3) How does Chinese SME employee use the social network to enhance their employability?. During the process, I began to code the transcripts using a lexicon of terms used by the respondents. As I read and reread the transcripts, I created new codes and adjusted the existing ones. To establish coding reliability, I asked friends, also fluent in my informants' native language, to code a random sample of 6 interviews and 20 documents inductively. Comparing these researchers' codes with my own enabled me to identify recurring topics that I had overlooked and cases where I had flagged conceptually distinct topics with a single code. Thus, this comparison resulted in an extended and refined coding scheme.

The last stage is the analysis, where I make connections between my interpretations of the interview answers, the parallel literature, and my theoretical framework. Miles and Huberman (1994) define qualitative data analysis as consisting of three concurrent flows of activity: data reduction, data display and conclusion drawing. Data reduction is the process of selecting, simplifying, abstracting and transforming the data that appear in transcriptions and field notes. In this stage of data reduction, each coded passage was numbered according to the question number it related to in the interview schedule. All of the interview transcripts were divided into the relevant question sections and then filed in the appropriate folder. The display is an "organised and compressed assembly of information that permits conclusion drawing" (Miles and Huberman, 1994, p. 11). Here, I group similar codes clustered together to produce a more general theme. Finally, I draw conclusion from the data according to the theme. Given that my research views knowledge as being rooted in the individual, therefore, the unit of analysis was based on the individual's experience of being involved in the process of bridging information asymmetries in network-based informal labour market. I compared

their responses and found no discrepancy between them. Thus, the generalizability of my finding is established. The organizing frameworks were then developed and presented in each finding chapter. The results of the analyses and following discussions are presented in chapters 5, 6 and 7.

#### **4.8 Chapter Summary**

In this chapter, I discussed the research methods and analysis tools used to answer my three primary research questions. I decided to employ qualitative methods, as the purpose of my research is to answer these three research questions. Qualitative research focuses not on the truth of a statement itself but on the understanding of people about how things happen rather than the fact that they happen. It is used in this thesis for conducting qualitative study on how the actors utilize their social capital to acquire knowledge to build the necessary organizational capability. Among the two qualitative research methods to consider – case-study and in-depth interview – I chose the latter, because this study focuses on how individuals interact with other network actors for the purpose of bridging information asymmetries in network-based informal labour market, and this approach provides access to a deep, complex understanding of the interviewees' attitudes and experiences.

This chapter also covers the methods used to select, collect, and analyse the data employed in this research. I collected 86 semi-structured interviews taken from 13 privately-owned Chinese SME manufacturers (in the die-casting sector). The personal interviews typically lasted around 60 to 75 minutes. In many instances, I returned to the informants and asked them to verify some of their points until I had as complete. After the data collection, I followed three general steps for the qualitative data analysis: transcription, coding and analysis, and used Nvivo software to assist me. In the end, I made connections between my interpretations of the interviews, the parallel literature, and my theoretical framework, and

developed implications from my findings. The next three chapters will focus on addressing and discussing the research findings for each of my research questions (one per chapter).

## CHAPTER 5

### INFORMAL RULES

#### 5.1 Chapter Overview

In this chapter, I explore the issues related to the development of knowledge resources through bridging information asymmetries in network-based informal labour market with a specific focus on how the informal rules and conditions that are shaped by peer pressure facilitate the process of information transfer about the skill availability and the movement of skilled workers in China. The informal rules are backed by the collective informal pressure (collective action) of the actors within the social network. I analyse the participants' responses to the interview questions as they relate to this phenomenon. I have found three general informal rule components: principal-agent, reciprocity, and relationship hierarchy. The interaction between these three informal rule components suggests a potential classification typology of seven patterns of rule: "anonymity", "*huibao*", "*lun*", "*liyì*", "*mianzi*", "*renqing*" and "integrated" rules. I provide supporting evidence that informal rules are in line with the intention to enhance trust.

#### 5.2 Informal Rules and the Different Dimension of Social Capital

The informal rules that are backed by the collective informal pressure (collective action) of the actors within the social network serve as a keystone for knowledge creation and transfer (Crouch, 2005). They represent the informal governing system within the network systems, which allows the actors to make sufficient sense of their situation in order to act coherently under conditions of uncertainty. The actors in certain countries, such as China and Russia, where the central planning is being reformed and the large state-owned enterprises are moving to more free market economic systems, who face uncertainties and risk due to the

absence of a formal regulation system, must heavily rely on informal systems to protect the role and expectations of specific groups (Puffer *et al.*, 2010). To solve this issue, all of the actors within a network need collectively to enforce the informal rules with regard to an actor who acts unethically and insist that that actor modifies their action. Fock and Woo (1998, p. 35) suggest that *guanxi* in China provides “*motivation and behavioural norms for relationships between members of society which distribute benefits and govern business opportunities*”. I found that the notion of informal rules is governed by each of the three dimensions of social capital (*guanxi*) in Chinese society.

Inkpen and Tsang (2005, p. 152) suggest that the structural dimension of social capital governs the pattern of linkages among the network actors: “*such elements of configuration as hierarchy, density and connectivity affect the flexibility and ease of knowledge exchange through their impact on the extent of contact and accessibility among network members*”.

With regard to the extent of the contact, the informants asserted:

*“Once, we were looking for a very special technique to do a special surface treatment for a new customer. I tried many ways to get hold of someone who knew how to do it, but could not find anyone until, one day, I told my friend about my situation. His guanxi-wang was huge, since he knew many people in this area [the surface treatment industry]; he immediately introduced me to an engineer from his factory to help me out. Even if he did not have an engineer here, I believe he would still do anything he could to help me, because I have helped him a lot in the past.”*  
(Owner, Surface Treatment, Factory 12)

*“Everything here is about guanxi, from finding a job to getting enough knowledge about the specific techniques or tricks about certain molds and product designs. You need to build guanxi first before finding people who possess the information you want. You will not able to get any good information if you do not have guanxi [connections] in the first place.”* (Engineer, Die-casting Part Subcontractor, Factory 9)

Both of these quotations indicate how important the extent of the contact is and suggest that it plays a critical role in bridging information asymmetries in network-based informal labour market in the privately-owned Chinese SME manufacturing industry. It illustrates perfectly the phase: “who you know” affects “what you know” (Nahapiet and Ghoshal, 1998). This is

critical, especially for people who work in the SME environment. According to the responses, the informants suggest that most of their information is acquired through social network relationships and the determinant with regard to whether they can access this important information is how many people they actually know.

Although having contacts is important in order to acquire information, however the informants also point out that it is equally important that the people you know are willing to share with you about this information. This leads us to the concept of accessibility, as affirmed by the following three engineers:

*“To get the necessary information about making a good die-casting mold, you need to know a lot of people with different knowledge [from mold design to the actual production process, using all sorts of computer numerical control (CNC) machines]. However, this does not mean that everyone can just knock on their [the skilled workers’] door and then they will teach you. You need to have a certain level of guanxi within the same guanxi-wang before they are willing to teach you anything.” (Engineer, Die-casting Molding/Tooling, Factory 2)*

*“My father always told me that it’s better to have a few very good friends that have a lot of friends who are not really close to you, [...], getting in touch with the guanxi-hu [key person] is the key to success. I remember that, once we are working on this new project and I knew whom I should talk to in order to gather more information. After I made contact with him, he was unwilling to talk because he was worried that I was trying to steal his clients. One of my close friends luckily is also a very close friend of this person so, in the end, I got the information I needed. Without my friend, even though I knew whom I should talk to, I still could not get the necessary information about this project.” (Engineer, Die-casting Part Machinery, Factory 4)*

*“When I first joined the company after graduating from university, I had no real-life experience [about die-casting mold making], and none of my colleagues were willing to help. It took me a long time to break down the wall [the barrier] of one of the groups and get their approval to join their little circle, and then finally I can learn the real thing [useful techniques for mold making] through this guanxi-wang.” (Engineer, Die-casting Molding/Tooling, Factory 3)*

The informants’ explanations reflect on the notion that accessibility is important. Nahapiet and Ghoshal (1998, p. 252) suggest that “access refers to receiving a valuable piece of information and knowing who can use it, and it identified the role of networks in providing an efficient information screening and distribution process for members of those networks”. My findings indicate that engineers cannot acquire certain knowledge about a project in which

they are involved if they only know who holds the information, without having access to them.

In the domain of the cognitive dimension of social capital, the development of knowledge is influenced by whether commonality exists between the knowledge acquirer and the knowledge provider. In the Chinese context, this tends to be illustrated by whether these two parties have a common background and family connections. The following quotations provide evidence of this argument:

*“I feel that I am obligated to teach my friend how to complete this task [product design] because we are tong-xiang [from xxx, a province in northern China] and tong-xue [from the same university]. I find it very hard to reject a shou-ren [familiar person] like this.” (Engineer, Die-casting Part Subcontractor, Factory 8)*

*“Our families are very close friends. Our fathers are just like real-blood brothers, like jia-ren. I cannot say no when he [a member of that family] came to me and asked me to help him [by providing necessary knowledge about particular product components].” (Engineer, Die-casting Part Machinery, Factory 5)*

*“I know that my friend will never let me down or do something bad to harm me. We have been through too much together and are close, like jia-ren [family members]. I believe that he will not pass on this information [sensitive company information] to outsiders, especially enemies [the competitors].” (Owner, Die-casting Part Subcontractor, Factory 11)*

These quotations show that the process of bridging information asymmetries is influenced by the establishment of a common background and family connections. Qing (2008) suggests that the structure of Chinese society originated from and was supported by personal relationships, as any other societies which form different layers of network circles and which impact on the effectiveness of information flow. Individuals who share a similar background and family connections are often placed close to the inner circle and have better access to sensitive knowledge. My findings reflect this notion, as the informants feel that they are obligated to help individuals who are close to their inner circle by supplying them with the knowledge that they request.

In the relational dimension of social capital, both Nahapiet and Ghoshal (1998) and Inkpen and Tsang's (2005) work suggests that the underlying value in this dimension is "trust". The purpose of the informal rules is primarily to establish trust among the network actors. When the actors face a situation whereby the formal rules are void, they must have a certain level of trust in the other actors within the network. There are several examples in my database to illustrate this point of view:

*"I will not waste my time on anyone who does not have xinyong [trustworthy creditability]. [...]. When people do not have xinyong, they tend to take advantage of me. [...]. It will cost us a lot of money and effort to deal with the local authorities to get it straight." (Owner, Die-casting Molding/Tooling, Factory 1)*

*"Someone whom you know personally to have xinyong will help you a lot. [...]. Dealing with a person who has no xinyong will not help you very much. Even if he/she knows someone in high places [the local or central government], you will pay the price [get hurt] eventually. A clever person never becomes involved in a relationship with someone who cannot be trusted." (Owner, Die-casting Part Subcontractor, Factory 11)*

*"I will never know what he needs this [knowledge] for. I do not mind if he uses it to please his boss. [...]. However, if he shares this with others openly and tells them that it came from me, I will be in trouble. [...]. Thus, I will never share this [knowledge] with anyone whom I do not trust." (Engineer, Die-casting Part Machinery, Factory 4).*

For actors to share their information with each other in the network environment, they need to make sure that they can trust each other and that no one will take advantage of others. Without a certain level of trust, the free rider problem will arise (Crouch, 2005), whereby individual actors desire to gain benefits from the social network without contributing any favours. An actor shared his experience of this:

*"A salesman came to visit our factory and asked me to assign some of the subcontracted work to them. The deal that he presented to me was too good to refuse. [...]. I sent engineers to teach them the tricks [machinery techniques] of this product for the purpose of quality control. A few months later, they secretly contacted my customer and offered him a lower unit price, so I eventually lost this customer. [...]. I have learnt my lesson. I will never trust anyone if I don't personally know him/her, because I have no idea whether they have xinyong or not." (Owner, Die-casting Part Machinery, Factory 4)*



In addition to the uncertainties faced by the company or individual in every economy, the actors in China – a developing economy with a lack of trusted formal institutions – face even more free-rider challenges due to the lack of a formal (or legal) structure for penalising those who takes advantage of their partners. Hence, the informal rules, here, act as a strong social norm – contractual governance mechanism (Wincent *et al.*, 2010), helping to reduce the free-rider issue by either increasing the cost for the free riders or reducing the cost for the benefit providers. Therefore, all of the actors within the network can collectively enforce the informal rules with regard to an actor who acts unethically and insist that the actor to correct its action. There are two examples of informal rules and I will discuss in greater detail later in this chapter:

*“I will only trust someone if he has done the same thing for me in the past. [...] You help me this time, I help you next time, and it is a two way route.” (Owner, Die-casting Part Subcontractor, Factory 10)*

*“I will share my factory’s technological information with someone, if I know that he will, under no circumstances, tell anyone that I am the one who provided this information. [...]. If he cannot promise to do that, I will not trust him.” (Engineer, Surface Treatment, Factory 12)*

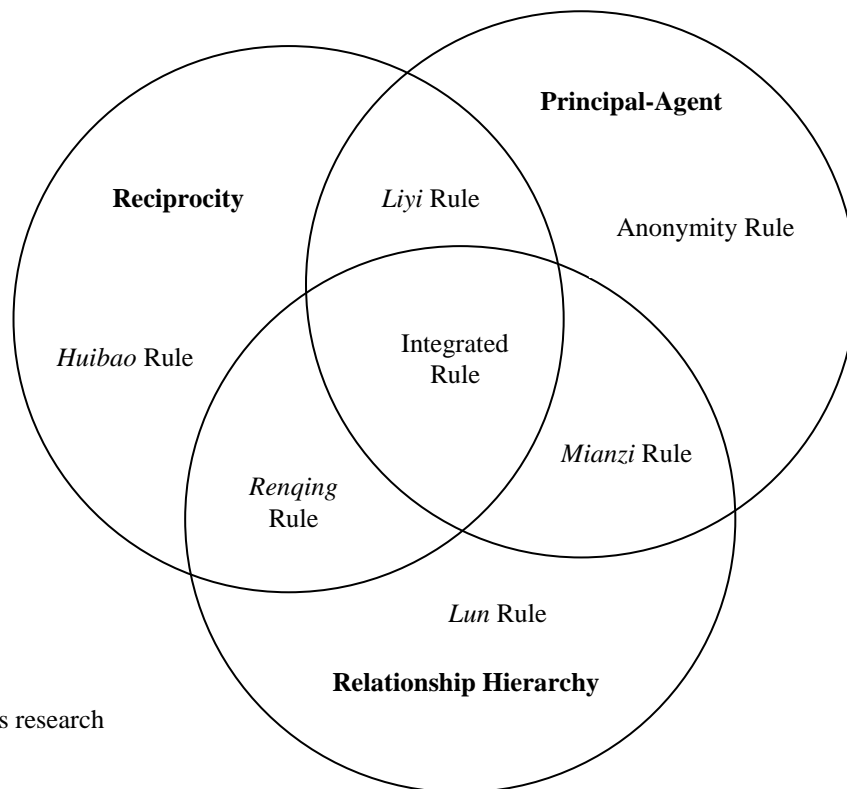
The situation described by the first informant is about mitigating the risks of opportunism by encouraging return favours to increase the social cost to the receiver of free riding. The second situation concerns the reduction of the social cost to the information provider, if free riding occurs. Both actions aim to help to reduce free-rider issues arising in the network environment.

### **5.3 Formation of the Informal Rules**

Figure 5.1 highlights the organizing framework that has emerged from my results. I show how the informants view the informal rules existing in the network relationships. In other words, the informal rules are about how the actors prefer to work with one another and so choose to have an embedded relationship to reduce the risk and uncertainty associated with

inter-relationship exchange. The formation of the informal rules in Chinese society is based on three main components: principal-agent, reciprocity, and relationship hierarchy. The qualitative findings are described in terms of the three components of the informal rules. Moreover, the different combinations of these three components suggest a potential classification typology of seven patterns of rule in terms of the influence of the social relationship on forming the informal rules. I will discuss all of the above claims in more detail in the following sections.

**Figure 5.1: Informal Rule Governance**



Developed in this research

### 5.3.1 Principal-Agent Component and Anonymity Rule

The principal-agent component is driven by the concept of the principal-agent problem whereby the principal (i.e. owner, partner, or shareholder of a privately-owned Chinese SME manufacturing company) has conflicting interests (i.e. knowledge sharing) with an agent (i.e. a manager, engineer, and any type of employee), due to goal divergence and information asymmetry (Eisenhardt, 1989a; Meuleman *et al.*, 2010). Agency theory indicates that,

because of the separation between ownership and control, an agent's interest can potentially conflict with that of the principal of the company (Fama, 1980). This means that agents may choose to pursue strategies and activities that benefit themselves at the expense of the principal (Tuggle *et al.*, 2010); for example, partners and engineers have different relationships with the company: engineers are rewarded by wages (and bonuses) while partners are rewarded with dividends and capital gain. Given this situation, Stead and Cross (2009) note that partners and engineers will have different incentives for sharing valuable information with a third party. When a piece of information has commercial value, a partner might well remain in the company waiting for the lion's share of the dividend while an engineer might be tempted to trade this information for both economic and social benefits that exceed his current earnings. Several respondents reflect on the above issue:

*“When my childhood friend asked to me to help him [to teach him the machinery processing skills related to a specific die-casting part, which can be considered a trade secret], I found it very hard to say no. We have been looking after each other since we left xxx [their home town] thirteen years ago. [...]. Losing the only friend I have here [the city] when I am far away from home is a stupid idea.” (Engineer, Die-casting Part Machinery, Factor 6)*

*“I was approached by this factory with a job offer two years ago. [...]. My [current] boss wants me because I have learnt many important new techniques [related to the die-casting parts machinery process] from my old company's clients. I have almost a daily conversation with their engineers in American. [...]. My [current] boss doubled my salary when he asked me to join them and bring these techniques to his company.” [Engineer, Die-casting Part Subcontractor, Factory 10]*

*“I think it is normal for us to talk to each other [share trade secrets]. [...]. I know people do that all the time. [...]. I think this is a very good tool to use when building guanxi here [in the die-casting manufacturing industry]. You will never know when you will need to use this guanxi.” (Engineer, Die-casting Molding/Tooling, Factory 1)*

*“I have tried my best to stop my employees sharing trade information with others, but I find it is very difficult, since “the mouth is growing on his body” [one has no control over others' actions].” (Owner, Die-casting Molding/Tooling, Factory 3)*

Research shows that the principal-agent issues appear to be more significant in Chinese society (Gu *et al.*, 2008) since, in China, the desire to maintain harmonious interpersonal relationships most of time is far beyond the requirement of principal-agent duties (Bond,

1996; 1991). In other words, the tendency to obey *guanxi* obligations can cause individual agents to exchange trade secrets with third parties as a temptation that is too great to resist.

Although many informants suggest that everyone expects the sharing of trade secrets to be common practice among employees in Chinese industry and that people do it all the time, however I was surprised to find that most people wish to remain anonymous during the process. The following quotations provide examples of such behaviour:

*“I will not tell anyone who helped me or taught me to solve this technical question. [...], because I do not want get him [the person who teaches me] into trouble and I do not want my boss to know that I am incapable of this task, [...], I will feel no mianzi [loss of face].” (Engineer, Die-casting Part Subcontractor, Factory 11)*

*“I will only tell my boss who [the engineers of our clients or suppliers] taught me this [technical knowledge], I want to let him [my boss] know that I have a good relationship with many other people. [...], but I will never tell anyone else. [...] He [the person who shared the knowledge with me] will never share any new information with me if I tell others about him.” (Engineer, Die-casting Part Machinery, Factory 4)*

*“The techniques that my clients [engineers from other companies] told me in private, I will never tell anyone who taught me that, because they [the engineers from other companies] do not want their company to know that they did this [share their company knowledge with others].” (Engineer, Die-casting Part Subcontractor, Factory 9)*

*“I will never tell who taught me this skill, especially if this individual is not from our company. [...]. I promised him that I will never reveal his name because, if I do, he will get fired by his boss. [...]. He will never teach me again because of this.” (Engineer, Die-casting Molding/Tooling, Factory 2)*

There are many reasons why someone might choose to hide his/her identity and remain anonymous, such as legal, legitimate, and social reasons (Hunton and Rose, 2010). Someone who feels threatened by someone else might attempt to hide from the threat behind various means of anonymity. From the above quotation, two reasons appear to dominate the discussion. The first reason concerns the protection of another person's identity. The informants feel that the disclosure of the identity of anyone who shares information with them will create a potential threat for that person. More specifically, the informants are aware that this information can be considered a trade secret, so people who share the information

with them should safeguard such secrets, and their companies have forbidden them to disclose such confidential information to parties outside the company. Thus, those who shared trade secrets with the informants have incurred an agency cost for their companies. In this case, anonymity serves as a shield to protect the identity of these individuals who share trade secret with others, as well as reduces the potential costs (i.e. the loss of one's job) if the receiver decides to free ride (i.e. use this trade secret against the company where the information provider is based) in this situation. The second reason concerns *mianzi* (face). According to the data, the informants fear that they will lose face when their superior knows that they do not possess the necessary skills to complete the given tasks. In this case, anonymity serves as a shield to protect the informants' reputation as competent employees.

Since the transferred value information is often considered a trade secret, the formation of knowledge usually takes place in a private place. I gathered the following observations:

*“If you need someone's help, of course, you need to offer something in return. [...]. But you cannot do this in the office or on the street. [...]. You need to find somewhere nice. For example, a private nightclub, golf course, a ma-jiang [a game for four players that originated in China] club are good places to go.” (Owner, Die-casting Part Subcontractor, Factory 9)*

*“When I find something that puzzles me and want to ask my friends' [engineers from other factories] help, I usually book a nice restaurant and ask them to join me for a nice meal. [...]. They will usually help me to solve the problem there.” (Engineer, Surface Treatment, Factory 13)*

*“I have joined many associations [formal], attended conferences, and so on, [...] but the purpose of obtaining this kind of membership is really to meet more people with the relevant specialities. The real [information] exchanges usually take place in private locations, [...], such as private dinners, games of golf and ma-jiang matches, not at official meetings [associations, conferences, and so on], because we do not want to get into trouble [i.e. intellectual property scot].” (Owner, Die-casting Part Machinery, Factory 7)*

*“He [the client's engineer who shares knowledge] considers this [trading information in an informal place] as protection for him. [...]. He does not want others to know or chit-chat about his actions, so he insists on doing this in a private place, such as a private nightclub.” (Engineer, Die-casting Part Subcontractor, Factory 11)*

Information grounds are the places where people exchange information (Counts and Fisher, 2008). People tend to feel comfortable about sharing information in specific locations or atmospheres. In this research, I learnt that information transferred about the skill availability among privately-owned Chinese SME manufacturing owners and engineers takes place in private information grounds. The primary reason, from the informants' perspective, is that the specific information that I am referring to here could be considered a trade secret. In other words, the private information grounds serve as a protective shield, similar to the concept of anonymity, to protect them from any potential consequences. Furthermore, I also identify some common information grounds for knowledge sharing, such as private nightclubs, golf course, and *ma-jiang* clubs. Fisher and Naumer (2006) refer to these as places where people go for other reasons but end up sharing information. The three places listed above are three common places used for information sharing. In comparison to the public information ground that Fisher and colleagues (2006; 2008) refers to, people gather in private information grounds by invitation. When the information holders accept an invitation to go to such places, they are expected to share information there.

In general, my findings about the principal-agent component of the informal rules with regard to the relational dimension of *guanxi* highlight the approaches that privately-owned Chinese SME manufacturers use to principal-agent problems in order to fulfil the purpose of bridging information asymmetries. It was built upon the principal-agent dilemma in the workplace. More specifically, the principal (i.e. business owner or partner) tends to withhold his/her trade secrets in order to obtain capital gain while the agent (i.e. employee) tends to bow before a social or economic incentive for sharing a firm's trade secrets with a third party. Under the anonymity rule, high degrees of interaction are taking place behind the scenes to shield the identity of the information providers. As a result, anonymity and private information grounds appear to be the ideal conditions in which to foster information sharing.

Both conditions offer protection to the agent who is willing to share a firm's trade secrets with a third party. If neither condition existed, the basis for this type of rule will be lost.

### 5.3.2 Reciprocity Component and *Huibao* Rule

The concept of reciprocity, applied when the social exchange (the exchange of goods and services between two parties) takes place, is the second component represented in the construct of informal rules. It refers to the set of social norms regarding a transaction in which one party extends a resource to another party in the expectation that the latter will later return the favour (Aselage and Eisenberger, 2003; Cropanzano and Michell, 2005; Wu *et al.*, 2006). The process operates such that, if A approaches B for a favour in a business exchange, A is obliged to return the favour when B initiates a similar exchange later. An individual is often viewed as untrustworthy if he/she refuses to return a favour. In particular, the concept of reciprocity seeks to increase the social cost of free-riding. For example, if A does a favour for B and B attempts to take advantage of A by not returning the favour later (free-riding), B will soon find out that he/she has become untrustworthy not only to A but also to the entire network to which A or A's network actors have access (as A and his/her network actors spread the word). As a result, B can expect to lose many opportunities (social cost) to cooperate again with anyone from A or from among A's network actors. There are some examples from my data to demonstrate this view:

*“There is no such thing as a free lunch; you should always return a favour after you receive help from others, [...]; otherwise, people will not help you again. Moreover, they will tell others, [...], so you may never receive help from anyone in the circle [network] again, because you do not respect the rules.” (Owner, Die-casting Part Machinery, Factory 6)*

*“[...] We always make them [company xxx] one of our priority clients; for example, if they request a quick lead-time [for orders], we will arrange additional work shifts for them to fulfil their need, even though this may increase our production cost. I expect them to treat us in the same way, however, last year, I found that they placed orders with other factories and not with me first, [...], I have become their second, third or even fourth choice. Although I still accept orders from them, I decided to hold back and shift my attention to other clients, [...]. I told all my friends [other*

*owners] that they are not playing by the rules.” (Owner, Die-casting Part Subcontractor, Factory 9)*

*“Exchanging favours is common practice here. [...]. For example, last year, I decided to purchase 3 sets of CNC machining centres from a dealer in Hong Kong. The owner of that dealership introduced some big clients to me this year. [...], so we both benefitted from this.” (Owner, Die-casting Part Machinery, Factory 7)*

Without the norm of reciprocity, individuals have to rely on formal protection, such as a detailed contract, which often sends negative signals to the other party about the seriousness of developing long term relationships based on trust (Lui and Wgo, 2004). Alternatively, when the concept of reciprocity applies to the parties' interaction, *“all parties signal benevolence, readiness to expose themselves to opportunism by initiating resource commitments towards a common cause, as well as ability to carry through their resource commitment”* (Wincent *et al.*, 2010). Thus, it will help to reduce opportunistic behaviour among the participating parties.

Returning another person's favour is an obligation within Chinese society. In order to receive benefits later, the participant party needs first to deposit some social credit. From my observation of the data set about Chinese business, I found that this procedure might lead to an uneven payoff for actors in a different ranking in the social relationship. The lower ranked actors in the social network hierarchy tend to contribute more early on and receive benefits later. More specially, when individuals first enter a social relationship, they need to pay their way (in the form of effort, money, service, and so on) to the top, so that they can take advantage of this system later (i.e. receive uneven contributions). The following quotations provide some examples of this:

*“When I first joined the company, I understood that I only have limited knowledge in this area [die-casting machinery]. Therefore, I not only paid respect to the seniors [experienced engineers] whom I met both inside and outside the firm, but also treated them to meals and drinks. [...]. I needed to build a good relationship with them before I asked them for favours with my work.” (Engineer, Die-casting Part Subcontractor, Factory 8)*



*“I found that those things [knowledge] that I learnt at school [technical institution] cannot really be applied in my work [usually involving tricks or new technology]. So, I have to learn from my colleagues, especially senior engineers or those who have graduated from a good university. [...]. I buy gifts for them for different occasions [Chinese New Year, mid-autumn festival, birthdays, etc.], regularly treat them to meals or drinks, and help them to handle some personal things, [...], let them feel that they owe me a lot. Then, it is much easier to ask them for help later on.” (Engineer, Die-casting Part Subcontractor, Factory 9)*

*“Never expect people will help you at short notice without good guanxi. [...]. Good guanxi takes a long time to build. It is just like a long term investment; you need to put money in and be patient before you can withdraw a big cheque. If you wait until you have a problem, it is impossible to expect someone to help you in that case.” (Engineer, Die-casting Part Machinery, Factory 4)*

*“Some kids [younger or new employees] in our factory do not know how to pay respect to their seniors. The respect that I am talking about is not just being polite; it is about taking on the dirty laundry, preparing gifts, that sort of thing. [...]. That’s how I made my way to the top; I have taken good care of them [my seniors] in the past [...], they [newcomers] should do the same, it is a cycle, that’s how things work here [China].” (Engineer, Die-casting Molding/Tooling, Factory 1)*

Before people develop a sense of acceptance about a new actor in a group, they must develop a perception of the new actor’s connection to that group (Hogg and Terry, 2000). When people categorise the new actor as part of a group, their attitudes and behaviour towards the new actor as part of the group will change. In other words, my findings suggest that, in order for reciprocity to take place, the new actor must demonstrate to the existing network actors that he is part of the network group. As a result, I found that, when a junior actor first enters the organization (social relationship), he is expected first to contribute far more before he can receive benefits later. Moreover, such behaviour by the junior can also help to strengthen his relationship ties with the existing network actors. Field experts describe that intense times with the network actors can make it easier for a junior actor to access valuable knowledge and resources from the network actors from the perspective of reciprocity (Gulati, 1999; Das and Teng, 2000). Once he has completed this procedure and is recognized as one of the network actors, then he/she will have the privilege of enjoying the benefits from another new actor who wishes to enter the network. This is in line with the suggestion by field experts that

the development of reciprocity takes time and effort and often involves time lags between action and reaction (Anand and Khanna, 2000; Wincent *et al.*, 2000; Walter *et al.*, 2008).

In general, I found that the reciprocity component of the informal rule was built upon social exchange and social credit. My findings with regard to the reciprocity component of the relational dimension of *guanxi* highlight that privately-owned Chinese SME manufacturers use the concept of reciprocity to exchange favours for the purpose of bridging information asymmetries. I label this the *huibao* (reciprocity in Chinese is called *bao* or *huibao*) rule. When a social exchange takes place, after the recipient has received the favour, he or she should return it when the opportunity arises (a lag time does exist). Under the *huibao* rule, it is necessary for the new actor first to build his/her social credit in order to be identified as part of the network group, which is usually facilitated by gift-giving activities. Such entry activities also help the new actor to establish a strong relationship with the network actors, which can help to enhance the reciprocity norm about the exchange activities later. Those who do not repay favours are considered to have no credibility. They will lose their reputation and ultimately their personal relationships and peers' trust.

### **5.3.3 Relationship Hierarchy Component and *Lun* Rule**

The third core component of the informal rules is the relationship hierarchy component. The central value of the concept is that the strength of the social relationship is not equal. A pattern of hierarchical social relationships exist in Chinese society. Chen (1994) indicates that a Chinese individual divides his social relationships into several circles and that different circles imply different moral standards. In chapter 2, I briefly discussed the concept of "*lun*", which can be best described as the hierarchy of social relationships, such as ruler-subject, father-son, husband-wife, brother-brother and friend-friend. Su *et al.* (2007, p. 304) indicate that this "*guide successful guanxi are that the humble cannot assail the noble, the distant cannot overrun the closer, and the individual cannot override the group*". In other words, the

*guanxi* partners who are distanced from or less attached to the higher ranking *guanxi* relationship hierarchy usually receive fewer benefits from the relationship. The following quotations illustrate the above discussion:

*“It is very hard to find a good job these days. Employers are looking for highly capable workers; at the same time, they do not want to offer additional training. If you want to get a promotion, you need to perform well in your job. However, the skill that I learnt at school is insufficient; I need to find a way to learn the new techniques myself. [...]. In my experience, I will always call my jia-ren first, if I need help. They are always willing to teach you, if they know about the techniques. As for friends, they will only help you if they are not competing with you directly.” (Engineer, Die-casting Part Machinery, Factory 6)*

*“When I face technological questions that I need help with, I will usually ask my jia-ren and relatives. If none of them knows how to solve the problem, I will then ask other shou-ren like tong-xhu from the university, tong-shi but from the same region [tong-xiang]. [...]. The better relationship [strength] that you have with them, the better help you will get.” (Engineer, Die-casting Part Machinery, Factory 7)*

*“I consider myself as a leader in my circle [network]. I have been in this industry [die-casting] for years; I have a higher position in the company and have more knowledge of the technology stuff. If my tong-xhu [from a different company] or the tong-shi in my circle [network] faces technical challenges at work, they will always come to ask for my help. Of course, they always offer me something in return, that’s how we look after each other in the same circle [network]. However, if my jia-ren or relatives ask me for some kind of help, I will be more eager to help them. [...]. However, if they have a direct conflict [a close competitor, bad relationship] with me, I will not help them, even if they are my relatives, unless they are my own flesh and blood [jia-ren].” (Engineer, Die-casting Molding/Tooling, Factory 2)*

*“We have many small circles [network groups] in the company. Whenever there is new information [a technique or trick], people will share it with each other within the same circle [network]. [...]. The strongest circle [network] is usually formed by people with a close family relationship.” (Engineer, Die-casting Part Machinery, Factory 4)*

From the above quotations, I can identify the order of the relationship hierarchy as follows: relatives (first order), friends (second order), and individuals from the same region/classmates (third order). This general order fits the model of the hierarchy of social relationships in Chinese society, discussed previously. I argue that, if a certain individual and the firm that this individual represents (i.e. works for) has a higher rank in the model of relationship hierarchy in Chinese society, then he/she can be considered as a high priority stakeholder for

the focal firm, the leader of which has a relationship with this specific individual. Moreover, the organization will offer more resources (i.e. knowledge) to satisfy its high priority stakeholders.

As well as interpreting the findings with regard to relationship hierarchy, they can also be read using social network theory. When applying social network theory to the concept of relationship hierarchy, individuals who are located in the higher rank of the relationship hierarchy are similar in having a central position in the social network (Luo, 2005). Since the central position in a social network offers better connections with the other network actors, it enhances the influential power of the individual who hold this position over the other network actors. The following example illustrates how relationship hierarchy applies to social network theory:

*“We are a small factory in comparison with others in our area. We help some big factories [company xxx, xxx and xxx] in our area to manufacture some orders [die-casting molds] for their clients. If we face technical difficulties, they will always send their engineers to help us. [...]. They are my close friends; I will do the same thing for them. For example, I will not accept others’ orders if these working partners [company xxx, xxx and xxx] do not want me to do so. In return, they will keep my factory running.” (Owner, Die-casting Molding/Tooling, Factory 2)*

*“We are in a very unstable and highly competitive economic environment; it is not easy for us to secure orders. In order to control our production costs, we do not like to invest too much [fixed capital investment, e.g. equipment]. As a result, we need to find some reliable vendors [small factories] to help out when we get a huge order. [...]. To ensure that we have the same quality output and commitment towards these orders, I will always go to a few particular vendors for help. I have built a good relationship with the owners of these small factories over a long time. Many of them are my relatives. [...]. In return, I will always give them help [technical support] if they ask, especially if those questions are related to the product they produce for us.” (Owner, Die-casting Part Subcontractor, Factory 11)*

The general rule detectable from the quotation suggests that the larger manufacturers (not necessarily “big” organizations under the industrial definition) within the manufacturing cluster usually provide assistance to the smaller manufacturers in developing knowledge resources. In other words, the larger manufacturers tend to hold the central position within the social network of the manufacturing cluster in order to facilitate the flow of information. The

motive is the desire that the smaller manufacturers will help the larger ones by taking on excess orders. This offers the larger manufacturers the flexibility to offset temporary large orders without investing heavily in the front. I found that the selection decision was usually made when the smaller factory owners or senior managers have some personal connections with the staff of the larger manufacturers. These conditions make the smaller manufacturers appear more trustworthy. In other words, although this seems to be firm-level collaboration, however it is still facilitated through personal relationships. In this case, an individual working in a larger organization seems to enjoy a higher social status than one working in a smaller organization.

In general, I found that the relationship hierarchy component of the informal rule was built upon the hierarchy of social relationships in Chinese society and applies to both stakeholder and social network theory. My findings with regard to the relationship hierarchy component of the relational dimension of *guanxi* highlight that privately-owned Chinese SME manufacturers use the concept of a relationship hierarchy to determine the destination of the information flows. I label this the *lun* (the Chinese model of relationship hierarchy) rule. Under the *lun* rule, the individual or the firm that he/she represents (i.e. works for) will receive preferential treatment from the higher ranks of the relationship hierarchy. Moreover, an individual who is located in the higher ranks of the relationship hierarchy can usually be considered as holding the central position in the social network and having influential power to facilitate information exchange.

#### **5.3.4 Multi-Components Rules**

In the above discussion, I identified the three-core components of the relational dimension of *guanxi* that influence the formation of informal rules. I also classified three informal rules that are built upon each component. Each of these three informal rules offers a rationale for observing the relationship dynamic that facilitates the transfer of information

about skill availability and labour matching process. In addition, these attributes may interact in ways that further drive the observed heterogeneity. As illustrated in Figure 5.1, there were four possible combinations of multi-component rules: *liyi*, *renqing*, *mianzi* and integrated.

The *liyi* (benefits exchange) rule was built upon a combination of the principal-agent and reciprocity components. Under the *liyi* rule, the bridging information asymmetries for the purpose of developing knowledge resources are generated purely as a result of benefit exchanges. The following quotations provide examples of the *liyi* rule:

*“In order to get clients to place an order with our factory, we must possess certain technical knowledge about the manufacturing process. [...]. The official way is to buy from someone who has the knowledge that we need in the open market [i.e. head-hunting, mergers and acquisitions] but it is expensive and time-consuming, most of the time, it is just not worth doing that. As a result, our boss tends to get it privately from engineers from other factories, or sometimes even from the engineers of our clients by giving them a real treat [...].” (Engineer, Die-casting Part Subcontractor, Factory 11)*

*“My personal experience is that the owner or top managers of the company usually will not hesitate to share the latest knowledge about the technology. However, I will always go to those employees at the lower level for information. [...]. Of course, you need to pay a price for such information. [...]. There are so many people in the factory; it is hard to tell who leaked the information.” (Engineer, Die-casting Molding/Tooling, Factory 3)*

*“It is really come down to what we can get and how much that we are willing to pay for it [sensible information]. [...]. Of course, we are not talking about bribery here, but you still need to pay for the price in some other ways such as ensuring them [other parties] get our order next time or sharing something [sensible information] with them. [...]. Most importantly, we need to get this done under the table” (Engineer, Surface Treatment, Factory 12)*

Relationships that follow the *liyi* rule can be referred to as the ultimate rent-seeking *guanxi* where benefits exchange is critical. More specifically, the initiative and maintenance of the social relationship requires the exchange of benefits. On the one hand, to the party who transfers information, a gift from the other party is a sign of his/her reward. On another hand, the party who receives the information provides gifts to show his/her appreciation, as well as an expression of reciprocity. This rule allows individuals to take advantage of both the anonymity and *huibao* rules in order to gain access to another organization's trade secret. In a

sense, the development of *guanxi* has often been viewed as being associated with corruption and bribery.

Secondly, the *renqing* (human debt to acquaintances) rule had high degrees of both the reciprocity and relationship hierarchy components. It represents informal social obligations to another party. Gouldner (1960) indicates that the reciprocity norm applies universally to all cultures for stabilizing the social system and interpersonal relationships. The differences between reciprocity in the Western and Chinese networks lies in the fact that the latter often links people across uneven ranks, “*with the weaker party calling for special favours without an equal level of reciprocal obligation*” (Park and Luo, 2001, p. 457). For example:

*“My brother-in-law owns a die-casting factory. 60% of the orders in my factory come from him. If we encounter any technical issues, I will ask my men [engineers] to go and ask those engineers in his factory and they will always respond favourably. [...]. As long as I do not screw up his orders, he will always place orders with my factory and offer technical support to me.” (Owner, Surface Treatment, Factory 13)*

*“My nephew graduated from a technical institution last year and opened a factory with my brother. [...]. If they have any questions [e.g. technical, employee-related, financial], they will always come to me and ask for my help. I am the oldest brother in the family; it is my responsibility to take care of them. In return, they know the rules; I also receive something [benefits] from them. For example, they will always make my order a priority and are willing to work longer hours to meet my deadlines. In response, they are my first priority in subcontracting and I will always give them a better unit price than I would normally pay other vendors for the same service.” (Owner, Die-casting Part Machinery, Factory 6)*

The above quotations reflect my earlier discussion that the exchange relationship is not necessary equally reciprocal. The amount of give and take is based on the relationship hierarchy. When the exchange takes place across different ranks, it tends to favour the weaker partner. The findings also reflect on Alston’s (1989) work that the power of the weaker is usually based on the Confucian principle of family loyalty, in which family ties demand an exchange of aid. From the quotations presented above, the surface treatment factory owner provides uneven help to his brother-in-law and the die-casting part machinery factory owner offers a better business deal to his nephew and younger brother. In both cases, the weaker

party obtains more benefits from the unequal reciprocation. However, it does not really mean that all family relationship is based on cooperation and acknowledges the existence of conflicts and falling out within family relationships. Nevertheless, based on the data from my sample, having family relationship with stronger parties appears to benefit weaker parties.

Thirdly, the *mianzi* (face) rule combines both the principal-agent and relationship hierarchy component. Park and Luo (2001, p. 457) indicate that “*mianzi is an intangible form of social currency and personal status, which affected by one’s social position and material wealth*”. In other words, the exchange usually involves one party providing actual benefits (i.e. knowledge) and the other party providing nothing but acknowledgement. In most cases, the party located in the higher rank of the relationship hierarchy is the one that provides the intangible acknowledgement. The following examples provide evidence of the above claims:

*“Yesterday, I received a phone call from my uncle to ask me to share some of the information about the new surface coating that our factory uses for a new client. [...]. He asked me to “give him a mianzi” [do him a favour based on his status]. I found it is very hard to say no, because he is my uncle [in a higher rank in the relationship hierarchy], I do want to be regarded as a disrespectful child in my family.” (Engineer, Surface Treatment, Factory 12)*

*“My brother has begged me to share some of the information about the recent machinery fixture design developed in my company. I have said no many times. [...]. Last month, at a family gathering, he asked me again, this time in front of all of my relatives. Eventually, all of my relatives, especially my grandfather and father, asked me to help him [my brother], based on their mianzi [credibility].” (Engineer, Die-casting Part Subcontractor, Factory 9)*

The above quotations provide examples of how the *mianzi* rule influences the decision-making. In the first example, the informant expressed less criticism about sharing the company’s information with another individual who has a higher social status. More specifically, the informant can tolerate more in terms of occupational ethics when facing a request from those higher up the ladder of the relationship hierarchy. The informant in the second example indicates that he was at first reluctant to share company information with his brother, but ended up doing so because of the collective *mianzi* of their relatives, especially



their seniors. In other words, *mianzi* is like a social currency. Not only can it be used to exchange tangible benefits, but it can also be transferred and combined to be exchanged for higher priced favours.

Lastly, the integrated rule demonstrates a high degree of all three informal rule components. In other words, this rule expresses all of the characteristics of the different dimensions of *guanxi*. The individual uses all three components of the informal rules to establish confidence within the network relationship. Using the principal-agent component, the individual takes advantage of the principal-agent dilemma to disarm the agents' ethical defence of sharing information for the purpose of developing of knowledge resources and offering the anonymity shield to protect the agent's identity. Using the reciprocity component, the individual provides an incentive for anyone who is willing to share knowledge with him/her. Using the relationship hierarchy, the individual can enhance the social and cultural pressure to invoke cooperative behaviour. In general, this can be viewed as an individual using all of the necessary traits of *guanxi* to influence a wider network.

In general, although I identified and discussed these informal rules ("anonymity", "*huibao*", "*lun*", "*liyi*", "*mianzi*", "*renqing*" and "integrated" rules) separately, however I also recognized that they are highly interrelated to each other. In order for employers and employees in privately-owned Chinese SME manufacturers to bridge the information asymmetries to acquire important information from other parties or to identify the key skilled workers who are capable to perform certain tasks, they sometimes use multiple informal rules in sequence to get things done. For example, an individual actor may use *mianzi* and *huibao* rules together by first by demonstrating to other party that he/she has high social status (i.e. face) and helpfully this individual can get something valuable from other party because of it. However, later on, this individual actor may still offer some gifts in return other party's favour to maintain the good network relationship. Other example such as an individual may

use *liyi*, *renqing* and *lun* rules in sequences by demonstrating his/her supremacy in relationship hierarchy, emphasising the close bonding in personal relationship and highlighting the reward the other party can receive from the transaction to acquire the important information that other party had. All these examples demonstrate that these informal rules are highly related to each other. The individual actor can use them wisely for enhance his/her advantage in network environment.

#### **5.4 Chapter Summary**

In this chapter, I focused on studying the informal rules with regard to the development of knowledge through bridging information asymmetries within social network. The informal rules that are backed by the collective informal pressure (collective action) of the actors within the social network represent the informal governing system within the network systems, which allows the actors to make sufficient sense of their situation in order to act coherently under conditions of uncertainty. I first discussed how each dimension of social capital and its *guanxi* specifications influence the formation of the informal rules. From the perspective of the structural dimension of social capital, I found the determinant with regard to whether the network actors can access this important information is based on how many people they actually know and their willingness to share their information. From the perspective of the cognitive dimension of social capital, I found that the bridging information asymmetries are influenced by whether commonality exists between the information acquirer and the information provider. More specifically, the network actors feel that they are obligated to help individuals who are close to their inner circle by supplying them with the information that they request. Finally, from the perspective of the relational dimension of social capital, I found that, in order for the network actors to share their information with

each other in the network environment, they must ensure that they can trust each other and that no one will take advantage of others for the purpose of reducing free-rider issues.

The discussion then proceeded to identify the three main components (principal-agent, reciprocity, and relationship hierarchy) that formulate the informal rules in Chinese society. Firstly, the principal-agent component is driven by the concept of the principal-agent problem, whereby the principal has conflicting interests with an agent. I found that, in Chinese society, the desire to maintain harmonious interpersonal relationships provides the drive for the network actors to obey their *guanxi* obligations by exchanging trade secrets with third parties. Thus, those who share trade secrets with the informants have incurred an agency cost for their company. In situations like these, the network actors wish to remain anonymous when providing trade secrets to others and tend to feel more comfortable about sharing information in specific locations or atmospheres. Secondly, the reciprocity component refers to the set of social norms regarding a transaction in which one party extends a resource to another in the expectation that the latter will later return the favour. I found that, in Chinese society, this reciprocity behaviour is built upon social credit. In order to receive benefits (i.e. knowledge) later, the participant party needs first to deposit some social credit. Usually, the lower (socially) ranked actors in the social network hierarchy tend to contribute more at an early stage and receive benefits later. Those who do not repay favours are considered to have no credibility and lose their personal relationships and peers' trust. I label this the *huibao* (reciprocity in Chinese is called *bao* or *huibao*) rule. Finally, the relationship hierarchy component stresses that the strength of social relationships is unequal in Chinese society. I found the order of the relationship hierarchy to be as follows: relatives (first order), friends (second order), and individuals from the same region/classmates (third order). The network actors who possess a higher order relationship with the resources (i.e. knowledge) holder tend

to be considered as a high priority stakeholder and enjoy preferential treatment in terms of obtaining such resources. I refer to this informal rule as the *lun* rule.

Moreover, where there exists a high degree of two informal rule components, the interaction between these three informal rule components suggests a potential classification typology of three patterns of rule. The *liyi* (benefits exchange) rule was built upon a combination of the principal-agent and reciprocity components. Under this informal rule, the bridging of information asymmetries is based purely as a result of benefit exchanges. The *renqing* (human debt to acquaintances) rule was built upon a combination of the relationship hierarchy and reciprocity components. Under this informal rule, when the resources (i.e. knowledge) exchange takes place across different ranks, it tends to favour the weaker partner. The *mianzi* (face) rule combines both the principal-agent and relationship hierarchy component. Under this informal rule, the exchange usually involves one party providing actual benefits (i.e. knowledge) and the other (an individual with a higher social status) providing nothing but social acknowledgement. Finally, the integrated rule demonstrates a high degree of all three informal rule components. This informal rule allows individuals to use all of the necessary traits of *guanxi* to influence the emergence of a wider network. The next chapter will focus on the employers' strategy for acquiring skilled workers from social networks.

## CHAPTER 6

### RECRUITMENT PRACTICE

#### 6.1 Chapter Overview

This chapter emphasises exploring how privately-owned Chinese SME manufacturers engage in a war for talent using social networks to acquire talented workers. After analysing the informants' responses to the interview questions as they relate to this phenomenon, I discovered that the informants' suggestions with regard to recruitment practices are influenced by three dimension of social capital within the scope of *guanxi*. The discussion proceeds to identify the motives for using social networks for recruitment practices. By analysing the informants' responses to the interview questions, I found that the employers in the privately-owned Chinese SME manufacturing industry use *guanxi* to recruit talented employees.

#### 6.2 Social Networks and Recruitment Practice

One of the most popular topics of discussion in this field is the employer's ability and strategy for acquiring knowledge through social networks (Seltzer *et al.*, 1991; Baum *et al.*, 2000; Barely and Kunda, 2004). The social network allows entrepreneurs (usually referred to as the owners of SMEs) to find talented personnel who already possess the necessary knowledge that the organisation needs (Leung *et al.*, 2006; Ortiz *et al.*, 2006). Given that entrepreneurs often face challenges in attracting skilled workers, social networks provide opportunities for them to acquire the needed human resources. Employers can learn what knowledge potential employees possess by getting to know them through local networks. In other words, social networks can serve as a recruitment tool to help employers to access as well as check the references and reputation of the potential candidates.

The perspective of social networks involves the dynamic interaction among the network actors. There follow representative quotations describing the usage of network ties to recruit skilled workers:

*“I have known many people in my home town who also work in a die-casting factory that produces similar parts. [...]. Although it is closer to home, it is very low paid, since it is a state owned enterprise (SOE) located in inland China. Therefore, if there is an opportunity [vacancy] in my factory, I will always recommend some of them to my boss and he likes that, saying that this saves him time and money.” (Engineer, Die-casting Part Subcontractor, Factory 10)*

*“Our boss wants to expand our client list to include those companies in the automotive industry; however, it is very hard for us to find some knowledgeable engineers to help us to upgrade our production processes [a specific industry standard such as TS16949 certification] from the open market. [...]. Through some personal contacts, I was able to recommend to my boss a candidate who has recently decided to reallocate to our city due to family reasons. He is now the chief engineer who oversees our production line for automotive parts.” (Engineer, Die-casting Part Subcontractor, Factory 11)*

*“I hired a line supervisor for the die-casting machinery process last month through my contacts. [...]. He is really good and helped us to re-organize the existing production line setting and helped my engineers to re-design some of our fixtures used in the machinery process, which helped to improve our productivity by more than 5%. I do not believe that I will ever find him through newspaper adverts [recruitment advertising].” (Owner, Die-casting Part Machinery, Factory 5)*

Many responses suggest the social networks help a business to acquire quality human resources by passing the information to the right people. They also reflect on Burt's (1992) finding that the social network produces three forms of advantage: access, timing and referral. “Access” is about receiving valuable information through network ties. My findings suggest that a business is able to find out who is qualified for the job through personal contacts. In this sense, the business uses the social networks to access information about potential candidates. “Timing” is about receiving valuable information sooner than others. My research results suggest that the business is able to learn quickly through network ties about the availability of potential candidates who have recently moved to the city near the manufacturing site and to react quickly to recruit the candidates. “Referral” is about providing information on the available opportunities to the members of the network. My

findings show that an engineer was able to provide information to the business owner about a potential candidate who was a member of the engineer's personal network (job referrals will be discussed in more detail in the next chapter).

Different types of network structure cause different patterns of linkages among the network actors. The quotations below provide examples of network linkage and their impact on recruitment practice:

*“We [three die-casting manufacturers located close to each other] have employed many engineers from the same university. It started with a couple of engineers from this university and then these engineers started to make referrals of their tong-xhu and juniors at university. I can see the benefits of this situation. The more people that we hire, the more we know about the potential candidates from this university. This makes it easier to find the employees who we need because we can just ask our engineers and cross reference to verify the information.” (Owner, Die-casting Part Subcontractor, Factory 8)*

*“My factory has recently set up an additional production line for a new die-casting part. Through the many contacts of my engineers, I was able to form the team quickly to secure this order. [...]. It is impossible for me to do this alone, because my own guanxi-wang is insufficient.” (Owner, Die-casting Part Machinery, Factory 5)*

*“My boss wants us [engineers] to form a new team for a specific automotive die-casting part. He told us that he does not know anyone who possesses this kind of skill [experience of air-tight issues and high temperature resist surface coating]. [...]. So, his job, in developing a new business opportunity, is to invest in equipment and want us to contribute in the soft area [bring in more engineers with the knowledge that the company needs].” (Engineer, Die-casting Part Subcontractor, Factory 10)*

These quotations provide examples of the different patterns of linkage among the network actors and how privately-owned Chinese SME manufacturers are able to use them to enhance their recruitment practices. In terms of density, the business focuses on using dense networks to acquire more information about the potential candidates for the job and also to verify the facts about them. In terms of connectivity, the business focuses on using the diversity of the network contacts to assemble a team that requires actors who possess different skills quickly in order to take on the business opportunity. In terms of hierarchy, the business focuses on taking advantage of the different levels of the network structure, given that some actors in the

network may be unconnected to the other actors, in order to search for suitable candidates for the job.

Inkpen and Tsang (2005, p. 153) describe how “*a highly unstable network may limit opportunities for the creation of social capital, because when an actor leaves the network, ties disappear*”. In order to continue taking advantage of social networks in recruitment practice, the firm must maintain the stability of its network channels. Here are some example quotations to illustrate the above discussion:

*“My boss asks me to send gifts to those individuals who have introduced good employees to our company during the major Chinese festivals. [...]. I believe it is because he wants to build a long term, stable relationship with them. [...], if they can introduce a good employee to him once, they can also introduce other good employees to him next time when he needs them.” (Engineer, Die-casting Part Machinery, Factory 5)*

*“I have been a member of several associations [industry associations and trade unions] for many years. The total cost of the membership fees each year is not cheap. However, I can see the benefits of maintaining this kind of membership. I have found many good employees and business partners from them.” (Owner, Die-casting Molding/Tooling, Factory 1)*

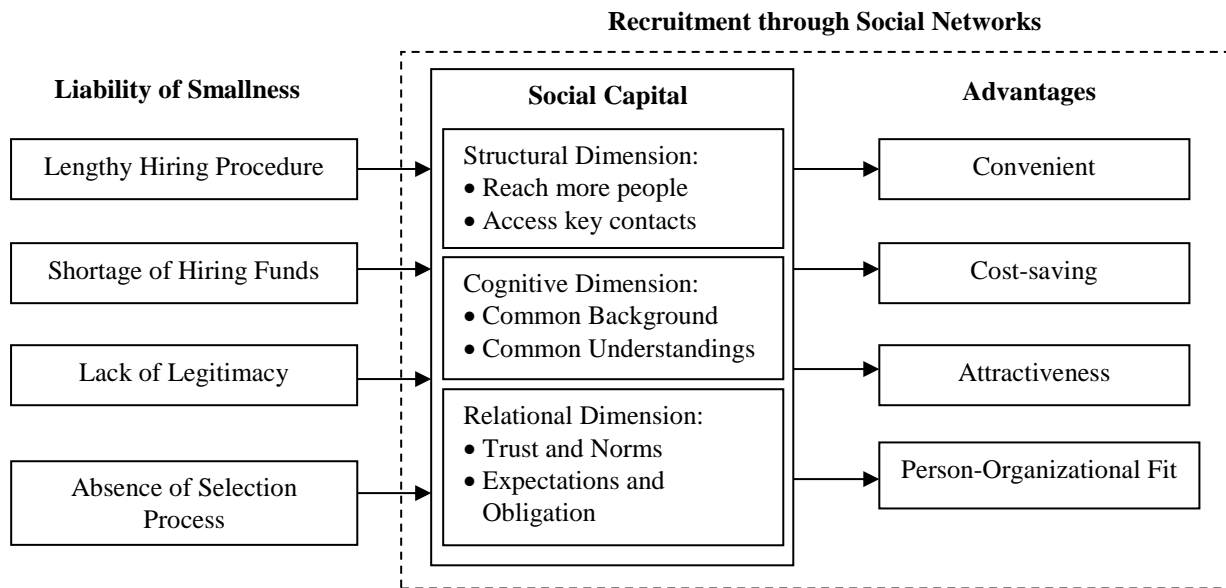
Maintaining stable network relationship allows firms to continue to acquire talented employees from the social networks. Both of the above quotations suggest that Chinese firms are aware of the importance of having stable connections with the other network actors and being willing to make efforts to develop long-lasting network relationships.

### **6.3 Guanxi and Recruitment Practice**

Previous studies reveal that small and medium size companies have attempted to use social networks in their recruitment practices (Barber *et al.*, 1999; Leung, 2003; Barley and Kunda, 2004). I will further explore exactly how *guanxi* influences recruitment practices. Figure 6.1 highlights the organizing framework that has emerged from my results.



**Figure 6.1 Guanxi and Recruitment Practice**



Developed in this research

This model suggests that privately-owned Chinese SME manufacturers can use social networks to achieve recruitment success, as social networks can address the challenges that typical small firms face in their recruitment practices, such as the fact that they are time consuming, high cost, lack legitimacy and lack a well-established recruitment system. As a result, recruitment practices through social networks for privately-owned Chinese SME manufacturers (in the form of small and medium size enterprises – see chapter 3) can help to advance the convenience, economy, firm’s attractiveness and person-organizational fit. These elements will ultimately lead to recruitment success. Moreover, I will also discuss how the structural, cognitive and relational dimensions of *guanxi* play a role in a firm’s recruitment success. In this section, I will draw on the literature about recruitment practices related to these elements in the model and supplement it with findings from the interview data to provide an interpretation of the relationship between *guanxi* and recruitment practice.

### 6.3.1 Liability of Smallness

The concept of “liability of smallness” suggests that small organizations face more challenges compared with large ones in different aspects of their business operations (Hannan

and Freeman, 1984), since the former usually lack abundant resources, which limits the level and number of strategic manoeuvres in which they can engage. This liability of smallness also influences the recruitment practices of small organizations (Barber *et al.*, 1999; Williamson, 2000). My research results show that privately-owned Chinese SME manufacturers also face several kinds of challenge because of their size. This section aims to identify and discuss these barriers to recruitment practices. The first barrier to recruitment practices that privately-owned Chinese SME manufacturers face is the time required for a formal recruitment process. Here are the suggestions provided by the informants in this regard:

*“We are not like those big companies that are always looking for people. They have a recruitment process running all the time. [...], for them, to hire a new engineer, it is just a matter of adding a new position name code or even just increasing the quantity code in the [recruitment] system. For us, who are not always looking for people, if we want to use this way to hire people, we need to restart the entire process all over again. It is very costly and time-consuming; our factory simply just does not have that kind of resources.” (Engineer, Die-casting Molding/Tooling, Factory 2)*

*“It usually takes us a very long time to prepare a recruitment advertisement. For example, a large factory can just place their job advertisements on their front door or company website and people will go and check. But for us, we need to place job advertisements in many different places [human resource agents, newspapers, etc.]. It takes me a lot of time and costs me a lot of money too.” (Owner, Surface Treatment, Factory 13)*

The normal recruitment practices for privately-owned Chinese SME manufacturers appears to be very time-consuming, especially when a firm is only looking for one or two highly skilled candidates at a time. Compared with the larger players in the industry, who have a well-established human resources department with systematic procedures for continually searching for qualified candidates, the smaller players may only seek one or two candidates occasionally (Barber *et al.*, 1999).

The informants suggest that the second barrier to recruitment practice for small organizations is a lack of financial resources. Here are the reflections of the informants on this topic:

*“If I could afford to spend lots of money on recruitment advertising like those big players in the industry, I would rather use that money to purchase new machines to boost my productivity right now. [...]. Usually, I can find good engineers through my contacts. Later, if we grow larger, like xxx [a large local manufacturer], then I would reconsider increasing my budget for recruitment.” (Owner, Die-casting Part Machinery, Factory 4)*

*“Some techniques [e.g. school visits, using a human resource agency] that are used by the large manufacturers for recruitment are too expensive for us. We struggle to earn enough money to keep our factory running due to the fierce market competition. I do not think my boss would agree that it is a good idea to spend too much money on recruitment practices.” (Engineer, Surface Treatment, Factory 13)*

*“I do not think that we can adopt all of the recruitment strategies that you mentioned earlier that those big factories adopt. Frankly speaking, we just do not have enough money to do so. Of course, if we had enough money, I think that my boss would try some of these methods. At this moment, my boss will only spend money on machines that can improve the quality of our products directly.” (Engineer, Die-casting Part Subcontractor, Factory 8)*

The informants suggest that small privately-owned Chinese SME manufacturers are generally unwilling or unable to spend too many resources on recruitment practices. Even the resources that are available, they prefer to use to purchase machinery. Previous research shows that a lack of financial resources is the most obvious difference between the recruitment practices of large and small organizations (Marsden, 1994; Cardon and Stevens, 2004). For example, Barber *et al.* (1999, p. 845) discuss the financial resources requirement for campus recruitment, a typical recruitment strategy adopted by large organizations, and find that effective campus recruitment involves the *“establishment of a presence on college campuses through publication and distribution of recruitment brochures, internship or co-op programmes, and repeated campus interview visits require a long term commitment to campus placement as well as significant financial resources”*; therefore *“such investments are unlikely to pay off for smaller firms that hire less regularly”*. In this sense, a small firm’s

limited financial resources force them to abandon certain expensive but effective recruitment methods. The interview results provide confirmation of this financial limitation.

The third barrier to recruitment practices for small organizations is the lack of employer legitimacy. Williamson (2000, p. 28) defines employer legitimacy as “*a generalized perception or assumption held by job applicants that an organization is a desirable, proper, or appropriate employer given the system of norms, values, beliefs, and definitions that exist within an industry*”. In other words, employer legitimacy concerns the job applicants’ perception of the organization’s attractiveness. Here are the responses of the informants with regard to the attractiveness of their organization:

*“It is not new that small factories like us find it very hard to attract good employees. Those big factories can offer far more benefits [better catering services, living conditions, training opportunities, etc.] to their employees. Moreover, the big companies with famous names, such as xxx, in this region can also help to raise the status of their employees. Especially, when employees go back home during the New Year holiday, they can tell their family and friends in their home town that they are working for a big name factory. It is a family pride for them.” (Engineer, Die-casting Molding/Tooling, Factory 1)*

*“Working in a big company can be considered as a sense of pride for many job applicants. I think this is a typical Chinese way of thinking. If you tell someone that you are working for a big, well-known company, not only you but your family will have mianzi [face and respect]. Therefore, it does create a problem for us to attract good job applicants; people simply just do not want to work here.” (Owner, Surface Treatment, Factory 12)*

*“Young people prefer to work for a large company, because they think it will help them with their future career. Moreover, it sounds better when you tell people that you are working for a famous company. People generally have the impression that only smart people can be selected and work for those large companies.” (Engineer, Die-casting Molding/Tooling, Factory 3)*

The informants’ responses clearly indicate the challenges faced by small Chinese manufacturers with regard to their lack of employer legitimacy. This is in line with Aldrich’s (1999) suggestion that small organizations cannot rely on their name and reputation to attract future employees. The results also indicate that Chinese job applicants have a special feeling about the reputation of an organization, especially in relation to family pride. The quotations

suggest that stating that they work for a well-known employer will help employees to gain face and respect among their close circle of friends and family. The employees consider this a sense of pride for their family, which has a unique value in Chinese culture (Dunfee and Warren, 2001; Cooke, 2005). As a result, the small Chinese manufacturers face a disadvantage when attempting to attract highly skilled employees in the job market.

The final barrier to their recruitment practices for small organizations is the lack of a well-established recruitment system. Barber *et al.* (1999, p. 844) suggest that large firms are more likely “*to have dedicated human resources professionals*”, “*follow a regular, and often extended, recruitment system*”, and “*to be flexible with regard to start dates for new employees because they have more resources to draw from in temporarily covering vacant positions or in carrying extra personnel in the event that some one wishes to start work earlier than anticipated*”. As a result, this gives the large organizations a better opportunity to find suitable employees for their business operations. The following quotations reflect the above discussion:

*“The cost of employees [primarily wages] is still the biggest cost for my factory. In this industry [manufacturing], [product unit] cost is the most important factor in determining whether you win or lose a contract. Therefore, we are very careful when hiring new employees, in the sense that we need to have tight control over our production costs. We cannot waste our money.” (Owner, Die-casting Part Subcontractor, Factory 10)*

*“A large factory finds it easier to get the best employees, because they can afford to hire anyone who knocks on their door as a trainee, slowly sort out the good ones from the bad ones, and finally offer the long term contact to the one whom they think is the best. As a small factory, we cannot do this.” (Engineer, Die-casting Part Subcontractor, Factory 8)*

*“We cannot compete with the big factories on this issue [recruitment]. Think about it, they create a [human resources] department just for this purpose. For us, my boss is “THE” human resources department, he is the one and only one responsible for the recruitment practices. [...]. How can we compare and compete with them [the big factories]?” (Engineer, Die-casting Part Machinery, Factory 5)*

Kristof (1996) suggests that the person-organization fit concerns the compatibility between a person and an organization when at least one entity provides what the other needs and they

share similar fundamental characteristics. Leung and colleagues (2003; 2006) indicate that the fit between the organization and the employees has positive effects on the employees' attitudes, such as their job satisfaction and job commitment. To find "fit" employees, the informants point out that the large Chinese manufacturers enjoy many advantages due to their well-established recruitment system, detail descriptions of job requirements and clearly defined roles for particular jobs. This allows the large Chinese manufacturers gradually to filter out the "fit" employees from the "non-fit" ones. In contrast, the small Chinese manufacturers do not have this kind of luxury. In the small organizations, the job descriptions are very vague and lack clearly defined job descriptions, since individual employees are required to take on many different tasks. To save costs, they must hire "fit" employees from the start.

In general, the above discussion highlights the "liability of smallness" faced by privately-owned Chinese SME manufacturers and identifies four specific barriers that these manufacturers must overcome in order to compete with the large Chinese manufacturers in the war for talent. The time barrier suggests that finding good talent is a time-consuming process. Small Chinese manufacturers, who are only looking for one or two highly skilled candidates at a time, cannot overcome it by adopting a continual hire scheme like the big Chinese manufacturers. The financial resources barrier suggests that finding good talent requires a huge investment up front. Small Chinese manufacturers with limited financial resources cannot overcome it by spending like the big players on expensive hiring schemes. The employer legitimacy barrier suggests that attracting good talent requires a good reputation. Small Chinese manufacturers, that lack a famous brand name, cannot overcome it due to their size and business nature. Finally, the barrier of lacking a well-established recruitment system suggests that finding good talent requires a process oriented system to differentiate between the "fit" and "non-fit" employees. Small Chinese manufacturers,

without a carefully designed recruitment system, cannot overcome it by spending enough resources like the big players on building a sophisticated recruitment system. As a result, small Chinese manufacturers need to find alternative ways to conduct their recruitment practice.

### **6.3.2 Advantages of Recruiting through Social Networks**

Hite and Hesterly (2001) suggest that small firms are more likely to acquire resources from social networks to ensure their success, because a “*newly created firm, which commonly suffers from liabilities of both newness and smallness, often lacks critical internal resources and capabilities*”. To lessen this disadvantage, a newly create firm needs to “*gain access to external resources and know-how that cannot be produced internally*” (Hite and Hesterly, 2001, p. 277). Previous researches point out that social networks, on the other hand, provide an opportunity for small firms to access this knowledge and these resources (Stuart, 1998; Stuart *et al.*, 1999; Barley and Kunda, 2004; Inkpen and Tsang, 2005). In the above discussion, I outline the limitation that small Chinese manufacturers face challenges to their recruitment practice because of their size. To overcome these challenges, the informants suggest that social networks represent critical avenues by which the organization may acquire talent.

Engaging in recruitment through formal channels is very time consuming and may fail to produce qualified candidates (Bian and Ang, 1997). In this sense, hiring employees through social networks appears to be a convenient way of carrying out recruitment. Here are some of the responses of the informants:

*“We have tried to use different methods to acquire engineers for our factory, such as placing advertisements in newspapers; however, they all take a very long time and are not very efficient. If we only want to hire one or two people, it is much easier to just make a couple of phones calls to friends with good guanxi-wang and see whether they can introduce a couple of good candidates for us to consider. We are not like those big players in the industry that are constantly looking for people, therefore,*

*this is [calling on a friend for help] a much more efficient and effective method.” (Engineer, Die-casting Part Subcontractor, Factory 8)*

*“[...]. We are not talking about entry level low end positions [production line workers] here. We are talking about people with knowledge of the manufacturing process. It might take us months to find good candidates if we used the normal route [job advertising, screening, interviews, etc.]. [...]. It is more convenient for us to use our contacts to find qualified people.” (Engineer, Die-casting Part Machinery, Factory 5)*

*“Recruitment through the normal channels [job advertising] usually takes us a long time. I personally like to use my contacts to find good engineers. Because my friends will not introduce those candidates to me if they do not think that he or she is a good choice for this job.” (Owner, Die-casting Molding/Tooling, Factory 2)*

The informants' responses raise issues about the convenience of recruiting qualified engineers through social networks. The recruitment practice through social networks allows firms to pre-screen the candidates based on the recommender's judgement. This is similar to Bian and Ang's (1997, p. 989) suggestion that those who recommend the candidates *“wish to protect their own reputation, they do not recommend just anyone but only those who they believe will be good workers for the company”*. In other words, the people who recommend the candidates also want to maintain a good relationship with the business and so wish to ensure that the candidates are of a high quality. More importantly, recruitment through social networks allows small Chinese manufacturers quickly to fill their job vacancies, when necessary, even though the firm only hires one or two candidates at a time. This helps small Chinese manufacturers to overcome the barrier of a lengthy formal recruitment process.

Leung (2003) suggests that recruitment through social networks is an inexpensive way of acquiring talent. Bain and Ang (1997) describe how hiring a high level employee (such as a professional, manager or administrator) usually involves a higher cost recruitment process that is difficult for small firms to bear. Here are the informants' responses regarding cost issues:

*“We cannot match those large manufacturers in recruitment spending. For example, they can go to a school directly to sponsor education training so that they can have the chance to pre-select the good candidates they need, or they can hire good*



*recruitment agents to hunt for potential candidates in the open market for them. For us, I think we need to focus on inexpensive ways when hiring new employees. [...]. Employees and friends' referrals are the most popular method for us to use during the hiring process. [...]*". (Engineer, Die-casting Part Machinery, Factory 6)

*"The long and short of it is we simply do not have much money to go through formal channels for recruitment. We hire most of our engineers from our [management team's] contacts or through employees' recommendations. It worked for us in the past and it works for us now."* (Owner, Surface Treatment, Factory 12)

The informants' suggestions about the recruitment cost issue faced by privately-owned Chinese SME manufacturers are in line with the findings of several field experts. For example, Marsden (1994) found that, due to a lack of financial resources, small firms are more likely to focus on single recruitment practice (i.e. only use recruitment aid on one newspaper). Heneman and Berkley (1999) found that small businesses are more likely to use inexpensive ways to recruit employees. My findings show that small Chinese manufacturers tend to choose an inexpensive method for recruitment; namely, using their network contacts. Therefore, engaging in recruitment practice through social networks provides a more inexpensive way for them to acquire talent, so they can concentrate their resources on and invest their capital in improving the production process (e.g. by purchasing machinery). In other words, engaging in recruitment practice through social networks allows the small players to overcome their financial resources limitation.

A small business that faces problems competing and surviving in the market environment often fails to offer a promising future perspective to their employees. This issue can be simply described as a lack of employer legitimacy, because the job applicants are unfamiliar with what the organization can offer and unlikely to believe that a small firm will fulfil its promises. In comparison to the large firms, experts suggest that small firms are less attractive to job applicants (Barber *et al.*, 1999; Williamson, 2000). The following quotations discuss how privately-owned Chinese SME manufacturers use social networks to enhance their attractiveness among potential employees:

*“Most of our engineers are from the same city. Some of them have known each other since a very young age and went to school together. They speak the same dialect, like the same food, their relationship is more than friends and more like jia-ren. Therefore, they are willing to work together in my factory since they can continually taking care of each other in a city far away from their home town.” (Owner, Die-casting Mold, Factory 3)*

*“We are from the same village. [...]. For me, I can sacrifice a bit [wages and benefits] to work in a factory that employs people whom I know. I feel more comfortable working with someone who shares similarities with me [dialect, habits, etc.] and they are more willing to share [resources, knowledge, etc.] with me, [...], I feel safer.” (Engineer, Die-casting Part Subcontractor, Factory 11)*

*“When we are trying to convince someone to join our company, we tend to ask those who share a similar background [i.e. coming from the same city, college, etc.] in our factory to go and talk to [recruit] them. It is much easier to convince someone to join us if the person whom we send to talk to him/her has a similar background.” (Engineer, Die-casting Machinery, Factory 7)*

These findings suggest that, despite the fact that smaller Chinese manufacturers tend to be less attractive employers than bigger firms, social networks can help the company to enhance its attractiveness through emphasising the similarities between the job candidates and the company. By emphasising the commonality and relationships between the existing employees and the job applicants, the informants suggest that this will create a sense a belonging for the job applicants and attract them to join the company. This is because job applicants find it easier to develop with individuals who share the same background and speak the same language. Even though they may be unfamiliar with the organization (a small Chinese manufacturer), they can see that people whom they trust benefit from working for it; and therefore, they are willing to join the organization because of this.

Finally, the informants suggest that using social networks to engage in recruitment practices can achieve the person-organization fit effectively. Heneman and Berkley (1999, p. 53) suggest that small organizations have a *“high number of single incumbent and employees typically perform multiple roles with unclear boundaries regarding the respective job role responsibilities”*. Therefore, finding and hiring a qualified workforce to fit the small business

environment is difficult. The following quotations provide examples of how small Chinese manufacturers use social networks to identify and recruit qualified engineers:

*“Before we make our decision to hire a particular job applicant, I will always look for someone who knew this person personally in the past and find out more information about this job applicant. [...]. Sometimes, I am very surprised by what I find out about this person through the people that I know, it can be very different from what he [the job applicant] claims during our conversation [interview].” (Owner, Die-casting Part Subcontractor, Factory 9)*

*“I think that I am not the only one trying to find out additional information [about the job applicant] using my contacts. In fact, we both [the recruiter and job applicant] want to find out more information about each other. [...]. If I find out that we [I and the person whom I want to hire] have a mutual friend, I will ask this mutual friend to say something nice about our factory to increase the chance of this person joining our company.” (Engineer, Die-casting Part Subcontractor, Factory 11)*

*“To get to know this person [the job applicant] better, you have to collect everyone’s [the network actors’] perceptions about him. [...]. I have learnt from my mistakes. You cannot believe everything that they say or trust the information they have listed on their CV. You must go and talk to someone who knows this person or has worked with him/her in the past. [...]. If I cannot find enough information about them, I will not hire them, in order to prevent potential loss [information leaks, a poor work attitude that affects productivity, etc.].”(Owner, Die-casting Molding/Tooling, Factory 3)*

The findings suggest that Chinese employers use social networks to find more information to ensure that potential employees will fit the organization. Here, social networks acts as a source of private information which either does not appear on a job applicant’s CV or is not disclosed during the interview process. This is in line with the finding of Leung (2003) that entrepreneurial firms use social network ties to ensure the fitness between the company and its employees. Moreover, I found that employees also use social networks to find out more information about the company. In other words, social networks serve as a communication channel for both parties.

The above discussions highlight the notion that small Chinese manufacturers use social networks to offset the disadvantages that they face in recruitment practice when compared with the big manufacturers. The informants suggest that social networks offer a convenient way to hire suitably qualified employees because it omits the need for a time-consuming

formal recruitment process. Therefore, it can help small Chinese manufacturers to overcome the time barrier. Secondly, social networks offer an inexpensive way to hire suitably qualified employees because they avoid the need to engage in costly formal recruitment procedures. As a result, small Chinese manufacturers can overcome their financial resources barrier to recruitment practice. Thirdly, social networks can help to stress the commonality and relationship between the existing employees and job applicants. It will make the employer more creditable and helps to overcome the legitimacy barrier. Finally, social networks offer a channel for both employers and employees to obtain private information about each other, which increase the chance of small Chinese manufacturers finding “fit” employees for their business, despite the small organization’s barrier of a lack of a well-established recruitment system. To conclude, my research results show that small Chinese manufacturers can use social networks to overcome their liability of smallness and achieve recruitment success.

#### **6.4 The Role of *Guanxi* in Recruitment Practice**

The above discussions conclude my research findings by suggesting that, by using social networks, small Chinese manufacturers can achieve recruitment success. I will take a step further in this section and discuss the force that governs and influences the relationships among the network actors. In chapter 3, I introduce three dimensions of social capital (structural, cognitive and relational) and link it with the Chinese concept of *guanxi*. I wish to present the results from the interview data about how each of the dimensions of social capital plays a role in facilitating recruitment practices through the use of social networks.

##### **6.4.1 The Structural Dimension of Social Capital**

Nahapiet and Ghoshal (1998) suggest that the structural dimension of social capital concerns the overall pattern of the connections between the actors in a social network. In other words, the structural dimension considers whom the actor is trying to reach, how he/she

is trying to reach them and how he/she can sustain the linkage to the actors that he/she has reached. An actor who has set up connections with a broader range of network actors can access more diverse resources. Here, I refer to these connections as a “*guanxi* network”.

My findings suggest that *guanxi* networks help small Chinese manufacturers to access more resources with regard to recruitment practices through social networks. To enhance the advantage of social networks in providing a convenient way of acquiring talent, a *guanxi* network plays a critical role in helping small Chinese manufacturers to access a pool of potential job candidates. An engineer from a die-casting part subcontractor suggests that:

*“My boss knows so many people in our industry. If he needs to find a particular type of employee, he just needs to make a few phone calls and ask his friends in his circle [social network] to pass the information on to me [about selection and hiring]. He just makes the hiring process very easy and effective.” (Factory 10)*

A similar suggestion was made by the owner of a die-casting part machinery company:

*“I always ensure that I maintain a good relationship with all of my contacts. You never know when you will need them. For example, we are trying to find a good engineer to supervise a production line equipped with the new CNC lathes and turning centres that we purchased recently; my contacts quickly helped me to identify a good candidate for this job.” (Factory 7)*

The message of the informants is clear: having a wider *guanxi* network can help to save a lot of time when acquiring talent, because the focal actor can receive help from the network actors with regard to identifying key talent. Ideally, the more network actors there are in the focal actor’s network, the larger the *guanxi* network is and the easier it is for the focal actor to recruit talent through the social network. An engineer from a die-casting part machinery company describes how his *guanxi* network facilitates the hiring of people through social networks:

*“When we hired our CNC programming engineer, I just happened to know that someone [a tong-xhu of my tong-xiong] who works for another factory personally knew the person whom we really wanted and was willing to introduce him to me. [...]. Without him, it [the recruitment process] would have been more complicated.” (Factory 4)*

The owner of a die-casting molding/tooling factory made similar remarks:

*“To break into their small circle [social network], you need to know the key persons there. In my case, I once successfully hired a mold design engineer quickly through a contact [vice president] at xxx [a regional trade association]; he helped me to find a very good candidate by utilising his influential power in that association and that region.” (Factory 3)*

Both responses suggest that a *guanxi* network allows small Chinese manufacturers to access actors in other social networks. This helps to broaden the focal actor’s network contacts, which leads to better access to the network resources. In this case, both informants suggest that knowing a key person (*guanxi-hu*) from another social network makes the recruitment process easier when the focal actor wishes to acquire employees from that other social network.

A *guanxi* network can also help to enhance the cost reduction effect of recruitment practices through social networks for small Chinese manufacturers. An engineer from a surface treatment factory described his experience of recruitment:

*“In my experience, the more people you know the cheaper and easier it is to find the right people to work for you, because you only need to spend very little or even nothing at all on advertising [job posts]. [...]. Yes, you need to return the favour to those who help you with this, but they will certainly help you again if you need it, and it is resources well spent.” (Factory 12)*

Similar remarks were made by the owner of a die-casting molding/tooling factory:

*“It is much easier for you to get useful referrals if you know a lot of people and your *guanxi-wang* is big enough. It is a good way to find good employees, especially if you do not have a lot of money.” (Factory 1)*

The informants’ responses suggest that *guanxi-wang* can help small Chinese manufacturers to save costs related to recruitment, as a wider *guanxi-wang* enables a company to capture and deliver more free information from/to a social network. Therefore, the company will not spend significant resources on information searching and transfer, which makes the recruitment process less costly. An engineer from a die-casting machinery company provided the following suggestion:

*“It saves my boss a lot of money, because one of the key members of the labour union of this factory is one of my best friends. He helps me to solve a lot of follow-up issues*

*when one of his colleagues leaves the factory and comes to work for us, especially when the other side [the engineer's former workplace] accuses us of stealing their best engineer." (Factory 5)*

Similarly, another engineer working for a die-casting part subcontractor also suggested that:

*"You know that people from the same place [village, city or province] like to help each other and stay together against outsiders [people who are not from the same place]. The only way for an outsider to break into this circle [network] is if you know some people in this circle [network] and are in the leading position. So, if you want to hire someone from within this small circle, the most effective way is to make friends with the key people in that particular circle [network]." (Factory 8)*

The responses suggest that a *guanxi* network also plays a critical role in breaking into other social networks. It allows Chinese employers to save costs when attempting to hire candidates from other social networks. In the words, a *guanxi* network can help to enhance the economic benefits that are generated when an employer attempts to engage in recruitment practices through social networks.

Thirdly, a *guanxi* network enhances the effect of using social networks as a recruitment tool for the purpose of improving a small organization's legitimacy. An engineer from a die-casting part machinery company shared his experience of this issue:

*"Usually, the candidates will have more confidence in our company after the formal job interview if they hear a lot of people speaking favourably about our factory. If I know someone close to this person [the job candidate], I will ask them to speak favourably about our factory in front of him. Of course, the more people you know, the higher the chance that you will know someone close to your potential candidate and make this trick work." (Factory 7)*

This response illustrates how a *guanxi* network may help further to enhance the employer's legitimacy when a company engages in recruitment practices through social networks. The informant suggests that job applicants tend to perceive that a company has a better reputation when many people give good feedback about it. In order to have more people speak favourably about it, a company needs to establish a good relationship with many actors; in other words, build a wider *guanxi* network. An owner of a die-casting part subcontractor suggests that:

*“By associating with the key person in that group [social network], we can increase our company’s status. For example, if we want to hire a particular engineer, I will ask this influential person to comment favourably about my company. Of course, first, I need to build good guanxi with him earlier.” (Factory 8)*

An engineer from a surface treatment factory made the following suggestion:

*“No matter how hard I try to tell a job candidate about the benefits of working at our factory, they still have some doubts about my promises. [...]. If I can find someone who knows both the job candidate and our company to help me to speak to the former, it is much easy to convince him/her to work for us.” (Factory 13)*

The responses suggest that a *guanxi* network helps to enhance the effects of an employer’s legitimacy improvement when an employer engages in recruitment activities through social networks, because an individual who is able to bridge two different social networks often has highly influential power in both. Through the endorsement of this *guanxi* network, the organization can improve its legitimacy in the eyes of job applicants.

Finally, a *guanxi* network can improve the company performance by finding “fit” job candidates through social networks. An engineer working for a die-casting part subcontractor suggested that:

*“If you know a lot of people, they can help you to acquire useful information about a potential job candidate. For example, we were looking to hire an engineer for a new process upgrade and already had an idea about who this person is. However, after making a few phone calls to the people who know this person well, we eventually decided not to hire him. I will not tell you the reason why, but I definitely would not have known about it in advance if I had not engaged in a well-connected guanxi-wang of the people close to this person.” (Factory 10)*

This response suggests that social networks allow employers to acquire more information about potential employees. They help employers to determine the person-organization fit of potential employees. In the above comment, the informant indicates that a wider *guanxi* network allowed him to gather more information about potential job candidates. In other words, *guanxi-wang* enhances the benefits of conducting recruitment practice through social networks, because a wider *guanxi-wang* allows the actor to gather information from multiple



sources and also helps to improve the reliability of this information. An engineer from a die-casting part subcontractor suggested:

*“Because of xxx [a guanxi-hu], I am able to find the right candidate to fill posts from different places. He gives my boss and me a lot of useful suggestions about who is the best engineer who will fit in with our company and helps me to get in touch with him. [...]” (Factory 9)*

Another engineer working for a die-casting part subcontractor provided a similar view:

*“Someone who can move between different circles [guanxi-wang] often has more power and knows more people. Therefore, they can give me more information about people’s background and advise me on who is the best candidate for us to hire.” (Factory 11)*

The results indicate that a *guanxi* network can help to enhance the success of recruitment through social networks, as the *guanxi* contact is able to access information from different social networks and so provide better information to the employer about the job candidate. It allows employers to have a better understanding about the job candidate and determine whether they are “fit” for the organization.

#### **6.4.2 The Cognitive Dimension of Social Capital**

According to Inkpen and Tsang (2005), the cognitive dimension of social capital is about sharing similar traits with one another, such as common goals and a common culture. The commonality within social network relationships allows different actors to have a better understanding of each other’s approaches to achieving certain outcomes, as well as each other’s expectations regarding the appropriate behaviour and obligations related to the tasks (Gulati *et al.*, 2000). The commonality among the actors within social networks plays a very important role in facilitating recruitment practices through social networks in the privately-owned Chinese SME manufacturing industry.

In terms of convenience, my data suggest that *guanxi* commonality can help a company to acquire employees with less effort. One engineer in the industry suggested:

*“We were close friends back then, at university. Our school was very good at teaching knowledge related to die-casting product design. Once I knew that my boss wanted to find a product design engineer, I immediately recommended some of my tong-xhu to him. He was very happy because it will usually take about three or four months to find suitable candidate for this job but, with my help, we had a new colleague with the knowledge we need join us within just two weeks.” (Die-casting Part Machinery, Factory 4)*

Another engineer provided a similar suggestion:

*“If you find someone who has good knowledge about specific manufacturing techniques and you know that he/she learnt most of these skills at school, then you can be sure that his/her tong-xhu will also have the same kind of knowledge. Therefore, it can usually save you a lot of time and money, if you ask him/her [the existing employee] to recommend some of his/her tong-xhu for you to choose from.” (Die-casting Part subcontractor, Factory 11)*

Both quotations suggest that, if *guanxi* commonality is caused by the network actors attending the same training institution, it usually means that the individuals from that social network will possess similar knowledge. Therefore, the company can identify potential job candidates by using its employees' social networks to search for individuals with a similar education and training background in order to avoid engaging in a lengthy candidate search process. As well as individuals who have a similar education and training background, individuals who have similar knowledge also like to associate with each other in Chinese society. The following two quotations provide evidence of this:

*“Two years ago, I received a phone call from my tong-xhu who told me that his boss was looking for someone like me to see whether I was interested in the new opportunity [as product engineer] in another city. [...]. Later, after I joined the company, I found that my boss had asked every engineer in his factory to recommend someone for this position. My friend and I were very close friends at university; he knows what I am good at this, which is why he introduced me to his boss to fill the post.” (Engineer, Die-casting Part Machinery, Factory 4)*

*“Sometimes, I feel very frustrated about finding qualified engineers to handle special projects. Last month, I kept tracking a potential contract from an overseas buyer; he was looking for a die-casting machinery part that needs to be made out of a specific type of aluminium alloy. Although we have the right machines and [production] capacity to produce that die-casting part, however I do not know anyone with knowledge about using that special material. The formal hiring process will take a very long time to complete and we do not have enough money to keep this kind of engineer on the pay-roll if I do not get this contract permanently later. So, I turned to my engineers to see if they knew anyone with the necessary knowledge for this*

*project. Finally, I managed to have an engineer ready for this project within a week, on a part-time basis for the first six months, until I can get a clearer picture of how big this order will be, I allowed this engineer to stay in his original company with his existing full-time job in exchange for a lower wage in order to keep my costs down.” (Owner, Die-casting Part Machinery, Factory 7)*

The above evidence suggests that people usually like to associate with others with similar knowledge. The recruiters can advantage of this and ask their existing employees to recommend someone with a similar skill level in order to identify suitable job candidates in a short period of time.

Secondly, the cogitative dimension of social capital also plays an important role in helping a company to save on recruitment costs. The evidence from my research suggests that cost saving in recruitment practice is mainly achieved through the practice of job referrals. More specifically, employers can save a lot of recruitment costs by asking their employees to recommend qualified candidates from their social networks for the job (job referrals will be discussed further in the next chapter). From my data, I have identified two common sources of job referral: family members and individuals who come from the same town or village. An example of employees referring their family members was found in the following:

*“We are not like a big company that receives thousands of job applications every year or can spend good money on participating in the university recruitment programme. If I need additional engineers for the project, I will first see if any jia-ren or relatives would like to work for me, and then I will ask my friends to introduce someone to me as well. It saves me a lot of money [on recruitment].” (Owner, Die-casting Part Subcontractor, Factory 10)*

There are also examples of employees referring their friends from the same village or city:

*“Recruiting people by using the contacts that I already have usually costs me less. I usually ask the employees in my factory to introduce some good candidates for me to choose from. For example, ten days ago, I hired someone who is the tong-xiang of one of my top engineers. They have known each other for many years; I have faith in this new employee based on my understanding of my top engineer.” (Owner, Surface Treatment, Factory 13)*

*“I like to work with someone who is from the same city. We can speak our native dialect when discussing the project, we can hang out after work and go to restaurants that serve our home dishes, and I really feel very comfortable. More importantly, my boss appreciates my help in finding him a good engineer and*

*therefore he does not need to spend money on job advertisements.” (Engineer, Die-casting Part Machinery, Factory 4)*

The above evidence suggests that cost saving with regard to recruitment practice can be achieved through job referrals. In Chinese society, individuals usually like to refer someone either from their family or who comes from the same location as themselves. These two types of referral candidates usually share similar cultures, languages and narratives, which allows them to have a better understanding of and to communicate better with each other, as suggested by Inkpen and Tsang (2005).

The informants suggest that the cognitive dimension of social capital plays a critical role in improving the company legitimacy and enhance the attractiveness of Chinese SMEs. Firstly, the informants suggest that having many people from the same town or village working for the same company can help it to boost its business legitimacy in that area. An engineer from a die-casting molding/tooling company observed:

*“My company has a good reputation in my home town. There are altogether five of us from the same town. The people in my home town think that our company is great. I usually invite my boss to my home town to look for other talent engineers.” (Factory 1)*

A similar observation was made by another engineer:

*“Although the people in my home town also know a lot of big name companies, however, in terms of a company like us [an SME], I believe we are the best company, with a good reputation for paying engineers a good salary and offering training opportunities. This is simply word-of-mouth, since lots of us who work for this company are from this town. Therefore, the people here know us [the company] well and also recognize our status in the die-casting industry.” (Die-casting Part Machinery, Factory 6)*

The informants’ suggestions indicate that, when a company hires many employees from the same place, they tend to spread the word about the company, such as the salary, working conditions and so on, in that area. If the company can utilise this notion to enhance its reputation, it will also increase its legitimacy with regard to future talent hunts. Secondly, the SME’s legitimacy from the employees’ perspective can also be improved if the company had

already hired some respected, high status individuals from the same education and training institution. The informants suggest:

*“Although this company does not have a famous brand name like the big players in the die-casting industry, however one of the most respected seniors from my university works here. I trust my friend’s [that respectful senior’s] vision and believe that this company is heading somewhere in the near future, which is the reason why I am here.” (Engineer, Die-casting Part Machinery, Factory 7)*

*“I am working here because some of my tong-xhu [top students in class] works here as well. I know one of them got a good offer from a large company in the industry immediately after graduating, however, he choose to work here, there must have been a good reason for him to do so, and therefore, it should not be a bad place to work.” (Engineer, Die-casting Molding/Tooling, Factory 2)*

The informants’ responses indicate that one of the ways in which Chinese job applicants determine the legitimacy of a business is to consider its decision to hire individuals whom these Chinese job applicants respect. This is in line with Qing’s (2008) suggestion that China is a highly collectivist society, in which people tend to define themselves as constituents of several collectives, such as the family, organization and in-group. Therefore, if SME manufacturers wish to enhance their perceived legitimacy in the eyes of potential employees from a particular education and training institution, they might hire some well-respected individuals from that organization.

Finally, my findings suggest that the cognitive dimension of *guanxi* also helps to improve the person-organization fit when a company is seeking to hire employees using social networks in China. The informants suggest that individuals with similar backgrounds and histories tend to understand each other better. In this sense, employers can use this information to screen and select more suitable employees for the company. The following quotations provide evidence of this:

*“How do you know whether this person can get along with the other people in my company and avoid workplace conflict? My short answer is, if his friends also work for the same company, just go and ask them. I usually find this method very effective.” (Owner, Die-casting Part Machinery, Factory 5)*

*“I have known my friend for more than 30 years. We grew up together and know each other well. At university, he always came top of the mechanical engineering class. One day, my boss came to me and asked me to recommend someone to him for a new project; I immediately knew whom I should contact.” (Engineer, Die-casting Part Machinery, Factory 7)*

*“If I want to hire an additional engineer for my factory, the first thing I do is ask my current employees to recommend someone to me. They will usually recommend someone whom they knew very well and who is capable of doing this kind of work. [...] The main reason is that I am not an engineer and have no hands-on technical experience in this field [die-casting] although I am good at sales and marketing. Why not just let my people [the engineers] decide who, they want to work with in order to get the job done?” (Owner, Die-casting Part Subcontractor, Factory 9)*

The informants suggest that employees with similar backgrounds and history to the job applicants can provide more, sensitive information about the job applicants (such as their personality, capability and so on). Therefore, the company recruiters can gain a better understanding about the job applicants and determine their fitness with the company.

A special feature of recent Chinese industrialisation has been the extensive use of migrant labour. The size of the migrant population particularly accelerated in the late 1980s and early 1990s, when China's transition towards a market economy was in full swing. The root cause of migrant workers is the “hukou system”, which allows people to live, work and study in a specific city, but makes it difficult if they wish to live in another city (Zhang, 2001). Fuelled by the economic reform and the improved efficiency of agricultural production, the rural labour force suddenly finds itself no longer needed for agricultural work and so must seek work elsewhere (Hare and Zhao, 2000, Meng, 2000; Zhao, 2000). Since the late 1980s, it has become increasingly difficult to reinforce this policy because employers enjoy greater flexibility in hiring people (Zhang, 2001; Liang *et al.*, 2002). Most of these migrant labourers bond together to enjoy similar features to home through social gatherings while they are away from home (Zhang, 2001). The individuals in these small social circles (social networks) usually have similar backgrounds and history, because they usually come from the same place. Though accessing these social networks, Chinese SME owners and senior managers

can take advantage of recruiting qualified employees at lower cost and in a less time consuming fashion. At the same time, it can also be interpreted that a stronger influence of social networks is because that the labour markets are immature in China. The internal migration has fuelled the increasing movement of workers towards the industrial regions. Without proper system of documenting and verifying individuals' skill-sets (as in mature labour market), the social networks appear to be one of few reliable ways to search and access qualified skilled workers (Zhu and Nyland, 2004; Cooke, 2005, Warner, 2009; Li and Sheldon, 2010). In the sense, the findings in this study may be exceptional in this transition period in China.

#### **6.4.3 The Relational Dimension of Social Capital**

The relational dimension of social capital focuses on the role of the relationships among the network actors. According to Nahapiet and Ghoshal (1998), the facets of this dimension include trust, norms, obligations and expectations, and identification. My findings suggest that, among these facets, trust, norms, and obligations and expectations play a critical role in facilitating recruitment practice through *guanxi*.

Firstly, my findings suggest that trust, here, plays a role in improving convenience and costing-saving when Chinese SMEs decide to engage in recruitment practices through social network. The following quotations from the informants explain this further:

*“I trust xxx’s [name of an individual’s] recommendations [job referrals]. I do not need to check their [the job candidates’] expertise any further. I can just hire those people he suggests to me after a simple phone interview. He [the job referee] has a good reputation in the industry. I do not think that he will take advantage of me, he does not need to do that.” (Owner, Die-casting Part Machinery, Factory 4)*

*“You can save a lot of money and time when hiring somebody if you can find a person whom you can trust to introduce them [job candidates] to you. I sometimes find that the quality of the candidates whom people refer to me is much better than the job applicants who come to me directly [through job advertising]. One of the reasons is that they [the job candidates] have already been pre-screened by their referee on my behalf, to a certain extent, their referee knows that they can fit into my*

*factory more easily than others.” (Owner, Die-casting Part Subcontractor, Factory 10)*

*“We do not really practise that [formal HR recruitment procedure] here. Our policy for hiring engineers is really simple. I rarely hire job applicants who come to me directly but those who are referred to me by either my close friends whom I trust or my long term suppliers [e.g. material suppliers]. The reason is why I trust my friends to truly help me is because they understand my needs and will not harm me and my business. [...]. As for my long term suppliers, if they introduce the wrong person to me, as a pay-back, I may never do business with them again.” (Owner, Die-casting Part Machinery, Factory 6)*

Mishra (1996) suggests that trust is multidimensional and indicates a willingness to be vulnerable to another party because the individual who trusts the others has a belief in the good intent, concern, competence, capability, reliability and perceived openness of the exchange partner (Nahapiet and Ghoshal, 1998). From the above quotations, it appears that the informants suggest that engaging in recruitment practices through social networks saves both time and money when employers trust the individuals who refer the job candidates to them. Because of this trust, employers do not need to spend additional time and money on either verifying the capability of prospective employees or exploring other “options” (gathering more information about other potential candidates) for the company.

Secondly, the relational dimension of social capital can enhance privately-owned Chinese SME manufacturers’ attractiveness to potential employees. The central focus here is obligations and expectations. The informants made the following suggestions:

*“People [job seekers] come to us all the time. We have a good reputation for paying our employees’ competitive wages and providing a nice working environment in the local area. When they are seeking a job and ask their friends to tell them where good work is, they will hear our company’s name again and again.” (Engineer, Die-casting Part Subcontractor, Factory 8)*

*“When people come to us, even if they have the knowledge we need, they are expected to work harder here than in any other factory but, in return, they can also expect that their pay cheque will be nice and better than that of any other engineers in other companies. That is the trust that I have developed with my employees over the past ten years.” (Owner, Die-casting Part Subcontractor, Factory 11)*

*“I have a good reputation in this town. People know that I will not take advantage of my employees. I will not ask them to work hard without paying them a good wage. I*



*will not fire them if they get their job done.” (Owner, Die-casting Part Machinery, Factory 2)*

*“I reward my employees fairly and people tend to spread the word around, no matter good or bad. I have people come to me all the time, because they want to get their kids or relatives a job in my factory.” (Owner, Die-casting Molding/Tooling, Factory 1)*

The informants suggest that a firm’s attractiveness will be enhanced when jobseekers have high expectations about what they can get from the firm; at the same time, the employers feel an obligation to meet their employees’ expectations. Furthermore, the informants also suggest that this process allow employers to build up a reputation continuously over time. In other words, every time this process takes place, it will further enhance the employer’s legitimacy.

Finally, the relational dimension of social capital can enhance the person-organization fit when employers attempt to recruit employees through social networks. The informants made the following claims:

*“When I interview someone, I want them to tell me everything so that I can better judge whether they will easily fit into my company. At the same time, I will also tell them a lot of things about my company and ask them to judge whether it is really where they want to work. If they think that they are not suitable for my company but I think that they have potential, I will try to refer them to my friends in the same industry. However, if I find that they have lied to me during the interview, I will kick out them immediately. [...]. In my view, building a healthy working environment with mutual trust is essential to success.” (Owner, Surface Treatment, Factory 12)*

*“My friends know my personality very well. Therefore, they will not introduce a candidate to me whom they feel will not fit into my company, because this might damage our friendship. On the other hand, I will give my friend a big red pocket [reward] in return if they find me a good engineer.” (Owner, Die-casting Part Subcontractor, Factory 8)*

The above quotations suggest that, in order to improve the person-organization fit aspect of the hiring decision, both sides should provide the necessary information to each other. In other words, norms of honesty need to be established with regard to the information exchange among the network actors. A norm represents a degree of consensus in the social system (Coleman, 1990). The informants suggest that norms of honesty play an important role in governing recruitment practices. They allow both parties (the employer and job

candidate) an opportunity to examine each other's offer thoroughly, which can contribute towards a better person-organization fit. Moreover, the informants also mention that the way to maintain this norm is through rewarding honest behaviour and punishing dishonest acts.

## **6.5 Chapter Summary**

In this chapter, I focused on studying recruitment practices through social networks with regard to the development of knowledge resources through bridging information asymmetries in network-based informal labour market. The interview results provide a more detailed picture of how social networks enable small Chinese manufacturers to overcome the liability of smallness and to recruit the best talent for their company. I found that the privately-owned Chinese SME manufacturers use social networks to: (1) access information about potential candidates; (2) learn quickly through network ties about the availability of potential candidates; and (3) provide information to the business owner about a potential candidate. My research results show that privately-owned Chinese SME manufacturers face several kinds of challenge because of their size, such as a lack of time, lack of financial resources, lack of employer legitimacy, and lack of a well-established recruitment system. To overcome these challenges, I found that social networks represent critical avenues through which the organization may acquire talent. To overcome the barrier of a lengthy formal recruitment process, social networks allow employers to pre-screen candidates based on the recommender's judgement and fill their job vacancies quickly. To overcome the financial resources barrier, social networks provide a less expensive way for firms to acquire talent by avoiding a lengthy recruitment process. To overcome legitimacy challenge, social networks help a company to enhance its attractiveness by emphasising the commonality and relationships between the existing employees and the job applicants. Finally, to overcome the lack of a well-established recruitment system, social networks can help employers to ensure

that potential employees will fit in with the organization by acting as a source of private information about them. Overall, social networks provide a convenient, economic way for small Chinese manufacturers to hire talented job candidates, as well as improve the organization's attractiveness to future employees and identify the "fittest" employees for the company.

Moreover, I also identified how each of the three dimensions of social capital plays a role in facilitating recruitment practices through social networks. In terms of the structural dimension of social capital, I found that *guanxi* networks help small Chinese manufacturers to access more resources with regard to recruitment practices. This not only allows employers to access a large pool of potential job candidates and reduce the cost of information searching and transfer, which makes the recruitment process less costly, but also enables employers to acquire a better understanding of the job candidate and determine whether he/she is "fit" for the organization. In terms of the cognitive dimension of social capital, I found that the commonality among the actors within social networks plays a very important role in facilitating recruitment practices through social networks in the privately-owned Chinese SME manufacturing industry. When employers use their employees' social networks to search for individuals with a similar education and training background, this can avoid lengthy, costly candidate search processes as well as enhance the employee-organization fit. At the same time, when a company hires many employees from the same place, they tend to spread the word about the company. If the company gains a good reputation in this way, this will help to enhance its organizational legitimacy. Finally, in terms of the relational dimension of social capital, I found that trust among the employers; employees and job referrers play an important role in improving convenience, cost-saving and employee-organization fitness when hiring employees. Because trust has been established, the employers do not need to spend extra time and money on either verifying the capability of

prospective employees or exploring other alternatives. The next chapter will focus on the employees' strategies regarding using their social networks to enhance their employability, with a particular focus on job referrals.

## **CHAPTER 7**

### **JOB REFERRAL**

#### **7.1 Chapter Overview**

This chapter emphasises the exploration of how Chinese employees use social networks to bridge information asymmetries to strengthen their employability in the manufacturing sector. This chapter starts with a discussion of the connection between employability and job referral, and then presents the research findings with regard to the practice of job referrals among employees in the privately-owned Chinese SME manufacturing sector. I found that *guanxi* (social capital) plays a significant role in improving employees' employability in the manufacturing job market. By analysing the participants' responses to the interview questions, three separate themes emerged from my interview data: job searching, job matching and compensation negotiation. I then discuss each of these themes using the perspective of the three dimensional model of social capital: structural, cognitive and relational.

#### **7.2 Employability, Social Networks and Job Referral**

Crouch's (2005, p. 95) work indicates that "*communities and local networks can also be important in helping employers and employees improve their knowledge of local labour market and skills*". I want to shift my focus in this chapter to discuss the issues on bridging information asymmetries in network-based informal labour market from the perspective of the employees. Crouch (2005, p. 95) suggests that employees are able to "*use local networks to discover new sources of employment*". More specifically, employees can use social networks to access more job information, including vacancies, the working environment, skills qualifications, salary level, and so on, which can help them to be prepared for any arising job opportunities. Crouch (2005) argues that this process of accessing more job

information through social networks allows employees to enhance their “employability” in the job market.

The fact that social networks have a tremendous impact on employees’ employability is not news for the field researchers. Many studies have shown that job seekers, especially skilled workers, have attempted to use social networks to find satisfactory jobs (Montgomery, 1991; Antoninis, 2006). Granovetter (1995) suggests that job seekers who find their employment through using their social contacts often have higher levels of job satisfaction and job compensation. There are three reasons for these phenomena. Firstly, social networks allow job seekers to gain access to more job information at a lower cost (Holzer, 1988; Mortensen and Vishwanath, 1994). Secondly, social networks enable job seekers to acquire more information about the jobs. As a result, job seekers can evaluate their fitness with regard to the prospective job opportunities (Simon and Warner, 1992; Kugler, 2003). Thirdly, social networks can affect the rewards and favourable treatments (i.e. job compensation) that job seekers receive (Boxman *et al.*, 1991; Mouw, 2003; Mizruchi *et al.*, 2010). The studies of this mechanism of using the advantage of network ties to find, prepare for, and get the best deal (i.e. salary) from job opportunities are largely recorded in the literature on “job referrals” (Granovetter, 1995; Seidel *et al.*, 2000; Antoninis, 2006).

Fernandez *et al.* (2000) and Seidel *et al.* (2000) suggest that job referral is an informal recruitment mechanism, that allows superior applicants to be nominated or encouraged by existing employees or the employees’ social network ties, which possess several advantages for employees over applying for jobs via formal recruitment methods (i.e. job applications). Firstly, job referrals can include individuals who might not otherwise know about and apply for the job (Fernandez and Weinberg, 1997). Although referrals by definition are limited by the numbers within a network (judged to be more exclusive than other means of disseminating job information), however the individuals who are, within the social network,

qualified for the job, may not necessarily have the access of job information. The formal communication channels about the vacancy (i.e. job advertisements) have their limits in reaching potentially qualified applicants. For example, a firm often has limited resources to spend on advertising the vacancy and qualified applicants often miss the information if they do not have access to certain communication channels (i.e. certain newspapers) that employers attempt to use or simply do not pay enough attention to the relevant information. Although I acknowledge employers tend to use the best communication channel to reach their target audience, however they may not always have enough financial resources to advertise on this particular channel or maintain running job advertisements for long period.

Secondly, referees tend to pre-screen job applicants before making their recommendations. As a result, individuals who may be qualified for the job, but who are aware of the opportunity, may be recommended to the employer. At the same time, the employer will get better job candidates from which to choose. Several studies suggest that the reason is that the referees believe that their own personal reputation will be affected by the quality of their referees; therefore, they will make sure that their referees are qualified for the post (Saloner, 1985; Yakubovich and Lup, 2006). In this sense, if the job applicants are very well suited to the vacancy, the referees will take the opportunity to help the job applicants to get the job in order to enhance their own good reputation. Job applicants will benefit from this if the referees favourably influence the employer's opinion of the candidate's desirability (Seidel *et al.*, 2000). It helps to increase the credibility of the job applicants' claim during the screening and interview processes.

Thirdly, referees can help both the employee and employer to acquire more information about the job applicants. Elliott (2001) indicates that referral hiring provides employers with an information advantage, because referees will pass on information to the employer about the quality of the candidates that is not easily assessed during the formal recruitment process,

as well as provide the job applicants with more information about the nature of the job. Simon and Warner (1992) argue that referral by referees whom the employer knows well will reduce the latter's uncertainty about the applicant's productivity. On the other hand, the referees will also pass on information to the candidates about the nature of the job and working conditions for them to consider. Elliott (2001, p. 403) further suggests that the result is "*presumed to be a better match between the job and the eventual hire*".

Fourthly, referral hiring will help the employees quickly to become familiar with the new job environment. Studies suggest that referees will probably help the candidates to become familiar with the organizational environment by providing on-the-job training and bonding with the existing workers in the organization, which will lead to an improvement in productivity (Reichers, 1987; Elliott, 2001). Seidel *et al.* (2000, p. 5) provide a similar suggestion, that "*employers may assume that candidates with a tie to the organization will benefit from greater access to information from their network, so that they will not only be competent but also that with connections to existing employees they will learn the ropes quickly*". In this sense, newcomers with good contacts with the existing staff can go through the organizational socialization process quicker and easier.

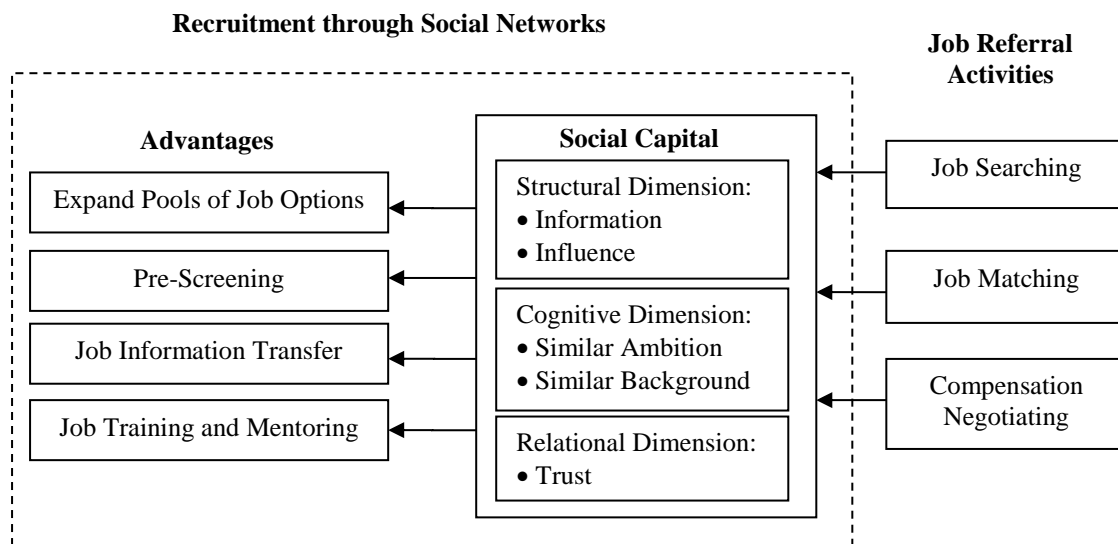
As a consequence of these sources of influence, stemming from the job applicants' intention to use social networks to gain an advantage in securing a job, their employability is enhanced. This chapter attempts to go further and examine exactly how potential employees in China use job referrals to find desirable jobs in the manufacturing sector and how their actions contribute to a firm's goal of developing knowledge resources through the use of social networks.



### 7.3 Job Referral Activities

Several studies have suggested that well-connected workers have an advantage when seeking desirable jobs which have better job prestige, job fitness and wages, using their network ties (Fernandez *et al.*, 2000; Peterson *et al.*, 2000; Lin, 2001). More specifically, well-connected workers have the opportunity to access more resources, embedded in their direct and indirect ties. These resources, embedded within the social network, can be expressed as one's "social capital", according to Inkpen and Tsang's (2005) definition. Lin's (1999, p. 468) work elaborates the concept of social capital in the labour market, referring to social capital as "*resources that are accessible through one's direct and indirect ties*" that can influence the job offer decision. In Chinese society, the close expression of "social capital" in the labour market is "*guanxi*" (see chapter 3). I will further explore exactly how *guanxi* plays a role in job referral practices. Figure 7.1 highlights the conceptual model that has emerged from my results.

**Figure 7.1 Job Referral**



Developed in this research

The data analysis for this chapter focuses on obtaining a better understanding of the connections between job referral and employability in the social network environment and how *guanxi* plays role in facilitating the process. Here, I attempt to include the employees'

perspectives, as well as the perspectives of the owners and senior managers in an attempt to offer a more comprehensive idea about how social networks and *guanxi* play a role in job referrals in China. I have identified three key job referral activities: job searching, job matching and compensation negotiation. On the basis of the conceptual insights obtained thus, I compiled a preliminary outline of the results and then returned to the original data to ensure that the findings are consistent with them. In the following section, I will present an overview of the factors that emerged from this research. The interactions between these activities and *guanxi* are discussed in more detail later.

The first activity is job searching. The practice of job searching using social networks involves job seekers asking their friends and relatives for help with or to give them information about finding work (Mouw, 2003). In China, Bian (2002, p. 471) argues that “*fast removal of hierarchical institutions and the slow growth of the market institutions have made formal search channels ineffective thus creating growing opportunities for guanxi networks to facilitate the flow of information about jobs*”. Although I acknowledge that Bian’s (2002) comments are made in the early 2000s, since then qualifications, employment agencies, educational developments such as vocational schools, a developing press and so on, are all improving market institutions; however, it is still true that social networks continuously play an important role in circulating information about the job opportunities in Chinese society. The following quotations provide examples for this claim:

*“I got this job two years ago. [...]. I learnt about the job through chatting with my very close tong-xu at university during our anniversary alumni reunion. He told me a lot of details (i.e. the company’s background, working environment) about this job and promised to help me to get it if I really wanted it.” (Engineer, Die-casting Molding/Tooling, Factory 1)*

*“Finding a good job in a big city is a real challenge, even though it is much easier now due to the popularity of the internet. However, not all factories, especially the smaller ones, will use it [e.g. a vacancy section on the company website]. For example, most of the engineers who work learnt about the vacancy through shou-ren’s word-of-mouth [friends and relatives] by chatting on QQ [similar to MSN] with them.” (Engineer, Die-casting Part Subcontractor, Factory 9)*

On the other hand, an engineer does suggest that there are more opportunities to find job through conventional route; however, it mostly applies to larger companies not SMEs.

*“I used to work for companies [large company] that are well-established in the industry that advertised the position through HR agencies or newspaper [formal channels] where I got the job information from. I don’t think I will join XXX [current company] if it is not recommended by one of my close friends, [...], even they did post the vacancy on XXX [HR agency], I guess I won’t paid much attention to it since they are not up to the scale [company size] I’m interested in.” (Engineer, Die-casting Part Machinery, Factory 6)*

Zhang and Li’s (2003) research suggests that *guanxi* has a significant impact on an individual’s probability of securing a non-agricultural job, especially during the rural to urban migration, where there is a surplus of rural labour that seeks to access non-agricultural employment opportunities but few public venues exist to provide farmers with information about the job opportunities. It facilitates information exchange and reduces the associated costs due to the absence of formal information channels. In my findings, one informant suggests that, although the new media play an important role in spreading job information, however not all companies are willing to use them. The small and medium sized companies (the research target of this thesis) appear less interested in adopting them for job posting.

The second activity is job matching; Antoninis (2006) suggests that the major reason for firms using social networks as a medium for hiring employees is the desire to reduce their uncertainty about the potential productivity of newcomers, and referees can help firms to reduce their uncertainty by providing more detailed information about the potential candidates. Similarly, the same notions also appear on the other side of the table. My findings suggest that the job seekers also want to know more about the company, which they cannot find out from using any media channels. They believe that referees can provide them with more information about the jobs; hence, they can accept a job offering that is more suited to their needs. The following quotations implicitly express this view:

*“I remember, many years ago, when I first came to this city; everyone is looking for the job that pays well. However, things have changed a lot here. Young people*

*nowadays want more from their boss, such as better working conditions, good living conditions, a canteen, training opportunities, and so on. They want to find a job that is the best match for their needs.” (Engineer, Die-casting Part Machinery, Factor 7)*

*“I wanted to find out more about this company before I came to work here. I asked everyone I knew had heard about this company, including the person who introduced me to my boss. Apart from the salary and benefits package, I want to know whether the people here [my boss and colleagues] are nice to work with and whether they will take advantage of others or not. Their answers helped me to make the final decision. Money is important but I also want to have a happy work life.” (Engineer, Die-casting Part Subcontractor, Factory 10)*

Elliott’s (2001) study identified three mutually exclusive types of job matching: (1) the use of formal channels which job seekers used and acquired jobs through (i.e. newspaper ads); (2) the use of insider referrals, where the referee works for the jobseekers’ eventual employer; and (3) the use of other types of informal channel, where the referee does not work for the jobseekers’ eventual employer. When jobseekers use social networks to improve their job matching, they heavily focus on using the insider referral and informal channels methods. The informants suggest that using social networks to find out whether the job matches their needs plays an important role in their decision making process regarding accepting the job.

The third activity is compensation negotiation. Seidel *et al.*’s (2000) work suggests that finding a job through social networks provides several advantages with regard to job compensation negotiation. They point out that *“the two principle advantages involve the transmittal of inside information to the applicant by the employed friend and the influence the friend may wield within the company to help the applicants to get favourable terms”* (Seidel *et al.*, 2000, p. 16). The follow quotations discuss a similar theme:

*“My friend’s advice helped me to get a good salary from the company. They told me how much my boss is usually willing to pay for an engineer like me and how much he paid the individual who did the job previously. I think that my friend’s advice helped me a lot, especially I am from xxx (an inland province of China), and so I do not know much about the rules and market price here.” (Engineer, Die-casting Part Machinery, Factory 6)*

*“My older cousin introduced me to the company where he works after I graduated from university. He is my supervisor and he helped me to get the best possible salary from our boss. [...], he helps the company to close lots of deals, that’s why our boss*

*likes him so much. [...], because our boss trusts him, so our boss simply trusts anyone he introduces to him.” (Engineer, Die-casting Part Subcontractor, Factory 9)*

The quotations reveal that using social networks to find a job in the privately-owned Chinese SME manufacturing sector allows jobseekers to gain an advantage in compensation negotiation. Similar to the suggestions offered by Seidel *et al.* (2000), I found that jobseekers have two advantages in this situation: an informational advantage and a relational advantage. According to my findings, an informational advantage is created through the company insider (referee) passing sensitive information that is relevant to the compensation negotiation to the jobseekers. As a result, the jobseekers can leverage this information to create an advantage in negotiating job compensation. On the other hand, a relational advantage is generated through the trusting relationship between the referee and the employer. Since the employer has already established trust with the referee, therefore the employer will be more likely to listen to the referee’s claim about the quality of the referee in performing the job. Thus, the employer will be more likely to agree to provide favourable treatment for the referee.

In the above discussion, I have identified the three of job referrals, such as job searching, job matching and compensation negotiation. More specially, individuals who use job referrals through their contacts to find a job enjoyed an advantage when seeking more suitable jobs with better compensation packages. It is largely due to the information provided by the referee that can improve on the number of vacancies that jobseekers can find on their own, as well as the more accurate or even more sensitive information about the working conditions and compensation package.

#### **7.4 Structural Dimension of *Guanxi***

In this section, I wish to take a step further to explore how *guanxi* plays an important role in help jobseekers to get the most out of the recruitment process, using the classifications of *guanxi* (structural, cognitive and relational) that I discussed in chapter 3. The structural

dimension of *guanxi* developed from the structural dimension of social capital, which focuses on the pattern of relationships between the network actors. In studying how this dimension of *guanxi* has influenced the effectiveness of job referrals on individuals' employability, two major themes emerged from the data set: the strong tie and the weak tie. I will discuss how they play an important role in influencing job searching, job matching and compensation negotiation.

#### **7.4.1 The Role of Strong Ties in Job Searching**

In Chinese society, *guanxi* represents a special relationship based on kinship or acquaintance that arises from familiarity, trustworthiness and reciprocity, which has a strong influence on job referrals. Cheung and Gui (2006) found that a strong tie enhances the effectiveness of job referrals because it incentivizes the matchmaker through enhancing the expectation of reciprocity from the referred person. In this research, I found that the Chinese manager often chooses to pass information about senior job vacancies only to those with whom he has strong ties and tries to fill them before the information become well know. Several informants expressed their opinion on this issue:

*“If we have a new engineer vacancy, I will first notify my shou-ren [relatives and close friends] and encourage them to apply for it. [...]. I will do my best to help them to get it if they really like the job because it is nice to have someone you know in the same workplace, you feel safe. It is even better if they are your jia-ren, because it can help to boost the family earnings and improve our living standard.” (Engineer, Die-casting Molding/Tooling, Factory 3)*

*“The more people know about the job, the more competition you will get! Therefore, you need to be fast. It is not wise to wait for the job to go onto the open market [newspaper or internet]. [...], the best way is to talk to the shou-ren with whom you have good guanxi who have influential power on this matter; see if you can get the job information in advance and get the chance to close the deal before it goes public to minimize the competition, [...], or at least see if they [the shou-ren] can help you with the salary negotiation.” (Engineer, Die-casting Part Subcontractor, Factory 10)*

*“In China, finding a good job usually requires relying on guanxi, this again is based on how close and how strong this guanxi is. You probably never find job information in the papers; even those foreign companies do not get everything clear on paper in the job advertisement. [...], usually, good jobs are already reserved for people who*

*have good guanxi with the company insiders, because they can get the information faster or have the ability to influence the decision making process. [...], put another way, the candidate whom the company insider refers to their company will have a better chance of getting the job; on the other hand, as a job applicant, you will have a better chance of getting the job if you have better guanxi with the referee.” (Engineer, Die-casting Part Subcontractor, Factory 11)*

The quotations suggest that having a strong tie with the key referees can enhance the performance of job searching. This is because the referees can pass key information about the job, especially highly-desired positions, on to the jobseekers and help them to obtain the position before the information is released to the job market, after which there will be more potential rivalry for the position. In other words, jobseekers that have a strong tie with the key referee can get the information about the senior job faster and quicker and therefore will be better prepared or even get the job before the information has been released to the public.

I also find that some company insiders not only have access to job information earlier than others, but also have the ability to influence the decision about the hiring. As one of the informants suggested, highly desired jobs are filled before they are advertised for the public to apply. It is similar to Bian’s (1997) suggestions about job searching in China, that a strong connection with the job-assigning authorities or individuals who can influence these authorities also have a big impact on job searching because, even when they have the information, typical job-seekers cannot apply for jobs. In this sense, having strong ties with the company insiders in China, jobseekers not only enjoy the advantage of accessing sensitive information quicker, but also that of influencing the hiring decisions.

#### **7.4.2 The Role of Weak Ties in Job Searching**

Similar to Granovetter’s (1973; 1983; 1995) work on the effectiveness of weak ties and job searching, because weak ties provide jobseekers with access to information and resources beyond those available in their own social circles, I found that weak ties (weak *guanxi*)

primarily serve a role as job information providers in the Chinese labour market. There is some evidence of this from the interviewees:

*“I have gathered a lot of suggestions about the job in this city from many friends. Some of them I know very well, we simply grew up together, some of them are my tong-xhu at university or tong-shi at work, and the majority of them I may have only met once or twice, as I got to know them through friends of friends at causal occasions. [...]. Because of the social circle [network] that I am in, I have got lots of job information that I otherwise would not have known if I never got in touch with these friends, [...], even those friends I do not know very well help me a lot by providing me with any job information they have, as a friendly gesture.” (Engineer, Die-casting Part Machinery, Factory 7)*

*“I truly do not mind my current employees spreading out the job opportunities among people they know, I actually encourage them to do so, since I see this as another way of marketing that can help to enlarge the candidate pool for my selection.” (Owner, Surface Treatment, Factory 12)*

*“Although you can ask your best friends to pass on job information to you, how many best or close friends do you have? In my case, I got the job information about this company [where he now works] through one of my long-distance relatives’ friends, it can still help.” (Engineer, Die-casting Machinery, Factory 4)*

*“It will be great if you have lots of good friends who can help you find a job; it is always good to know more details about the job beforehand. However, even if you do not have this kind of luck, you can still get some necessary information about the job through so-so contacts [weak ties]. Although they may be unwilling to reveal key information about the job to you or help you to get it, however it is still better than the official information that you can get from the newspaper advertisements.” (Engineer, Die-casting Molding/Tooling, Factory 3)*

The findings suggest the weak ties allow jobseekers to obtain more job information. It is similar to Hong and Engestrom’s (2004) suggestion that weak ties help with finding a job, accessing job information, and sustaining social interaction in the workplace. The informants also point out that they preferred to seek for jobs through strong ties, which is supported by Cheung and Gui’s (2006) argument that, in China, a strong tie encourage the referees to refer jobseekers towards more rewarding jobs. As discussed earlier, for some highly desirable jobs, it is not really a question of whether or not you can find a job. It is more about whether you can apply for it and get it. The implicit impression that I got from the informants’ responses suggests that some jobs will be very difficult to get without assistance from company insiders,



and these company insiders are only willing to act as referee if the jobseeker has a good *guanxi* (strong tie) with them. However, we still should not undermine the information advantage provided by a weak tie. Granovetter's (1973; 1983; 1995) work suggests that weak ties (i.e. colleagues) provide richer information on jobs compared with family or friends because they have been in the specific labour market for longer and in a more focused way, which yields richer information. As the last quotation shows, the job information obtained from weak ties is richer than the official information that you can get from job advertising. In this sense, although weak ties have less impact on job searching in China, however they can still help to provide more job information to jobseekers that otherwise have to rely on job advertisements.

#### **7.4.3 The Role of Strong Ties in Job Matching**

In terms of job matching, I found that the referees (company insiders) who have a strong relationship with the jobseekers tend to play a more active role in matching candidates with particular positions. Cheung and Gui (2006) suggest that a close *guanxi* (strong tie) motivates the referees to be more involved in the matchmaking. The following quotations from our interviewees provide some evidence of this:

*“My cousin and I are very close, I have worked very hard, using all my connections, for the past few months and finally helped my cousin to find a good engineering-related job in the city. You may think it is easy because my cousin graduated from xxx [one of the top universities in southern China], and I am sure I will continue to help as his mentor and teach him whatever ticks and techniques I know, but it is not like that. I not only want to make sure he gets a good salary, but also want him to be able to work in a nice, safe working environment and, most important, to have very good prospects in this industry [die-casting], that is what I consider a good job.”*  
(Engineer, Die-casting Part Subcontractor, Factory 10)

*“I am not perfect; therefore, I will provide different levels of help to different people. For shou-ren [jia-ren and very close friends], I will not just provide basic job information, like I do for so-so friends, instead, I will try my best to make sure that he gets the job, and he is happy with it. In order to do that, you need to consider lots of things, such as the pay package, working conditions, close to home or not, and so on. It also means that I need to contact some potential employers to ask them for detailed information about the job or even visit the factory myself if I really have an air-tight*

*guanxi with this particular employee. I think it is important that, if you want to help them, especially your jia-ren, you better get it right at the very beginning, otherwise, it is worse than if you never helped them at all.” (Owner, Die-casting Part Subcontractor, Factory 9)*

This interviewee reveals that Chinese referees tend to play a more active role in helping jobseekers to find a suitable job if they have a close relationship with them. Interestingly, the informants indicate that they feel that they have the responsibility to ensure that jobseekers that have a close relationship with them are satisfied with the job. This is supported by Peng (2004, p. 1049), who found that “*tie strength matters in the Chinese context because trust and obligations are bestowed differentially according to its gradient*”. In other words, referees who have close relationships with jobseekers feel that they need to devote more effort to helping them in order to honour their obligations. Therefore, they tend to play a more active role in the activities with regard to job matching.

#### **7.4.4 The Role of Weak Ties in Job Matching**

In comparison, referees who have a weak relationship with jobseekers tend to play a more passive role in matching candidates with positions. The informants commented:

*“The job description and work responsibilities in small enterprises are not very clear. If you do not know anyone inside the company to help you, you will not be able to get additional or accurate information about the company or the job itself. [...]. Even if you can find someone inside to help you, if you do not have a good guanxi with him/her, he/she may not be willing to tell you all the information in detail.” (Engineer, Die-casting Part Machinery, Factory 7)*

*“It is about how you ask the questions about the company. My own experience suggested that they [company insiders] may not unfold all of the information about the company to you in detail, unless you have got really a good guanxi with them. However, you can still benefit from them by asking good questions. [...], if you have a good guanxi with them, they will tell you a lot more about the company even if you do not ask the right questions, because they want to impress you and hope that, next time, you will be the one offering the help they need, or they feel they need to do in return for your previous help with certain matters. [...], the golden rule is: the deeper the guanxi, the more information you will be able to get from them, if you do not have that kind of relationship, then prepare some really good questions to catch the big fish [key information] from those insiders.” (Engineer, Die-casting Part Subcontractor, Factory 11)*

The responses match Granovetter's (1995) indication that weak ties are useful in spreading information. The informants suggest that, if jobseekers do not have close relationships with company insiders, then the latter will not automatically reveal the important job related information to the former. However, this does not mean that jobseekers without a strong tie will not get any information about the job from the company insiders. It implicitly suggests that the jobseekers that use weak ties to obtain the information about the job need to take a more active role in consolidating the job information from several relevant sources, instead of waiting for one close insider (i.e. blood relations or close friends) to offer a complete picture of the job. The informants indicate that is a matter of the questions that the jobseekers ask the company insiders. It means that the company insiders are still willing to reveal a lot of job related information to jobseekers who have a weak relationship with the company insiders, if they ask good questions. In this sense, if the jobseekers do not have strong connections with the company insiders, they can still benefit by doing more homework and preparing to ask good questions about the job when they meet the company insiders.

#### **7.4.5 The Role of Strong Ties in Compensation Negotiation**

Several researchers found that the closeness of *guanxi* contributes towards job rewards (Bian and Ang, 1997). Although job rewards are not only financial but also psychological, however we cannot deny that earnings play a big part of job satisfaction in China. The informants provide the following claims to support the argument that strong ties play an important role in influencing job compensation by enhancing jobseekers' bargaining power:

*“My father has a hard core guanxi with my boss, he [the owner of the factory] promised my father he will take good care of me here. I have been working here for three years; I feel that I always get better treats than my colleagues. For example, my boss pays me a higher wage and I have more days off, [...], and what makes my colleagues envy me the most is that he lets me participate in different kinds of projects to gain experience even though I cannot contribute anything solid to the project, he asks me to take the chance to learn, [...].” (Engineer, Die-casting Part Subcontractor, Factory 10)*

*“My uncle introduced to me this job when I graduated from a technical institution without any practical experience of die-casting. He is the second in command at this company in charge of the engineering and production department, [...], our boss trusts him a lot. He helped me to get into the company as a junior engineer which usually requires a minimum of one year’s actual work experience and he also helped me to get a competitive pay rate. I will try my best to repay him and his family in the future.” (Engineer, Die-casting Molding/Tooling, Factory 3)*

*“When I hire new people here, I often have someone contact me and ask me to hire someone they know. In most cases, if the person that they introduced to me is qualified for the position, I usually will say yes and try to pay this person more than usual, especially if the referee is close to me. I take this as an investment or payback, it is a chance to build guanxi, [...], it is always more important to make friends than enemies, you never know if one day you will need their help or not.” (Owner, Die-casting Part Machinery, Factory 4)*

My findings provide support for the argument that strong ties can influence employees’ job compensation. The informants suggest that having a close relationship with the hiring decision maker or with the latter’s close associates will help them to get favourable treatment in terms of job compensation. The responses also highlight the role of reciprocity, a key component of *guanxi*, in compensation negotiation. For example, one informant suggests that he will do his best to re-pay his referee and referee’s family in future. Chemers (1997) points out that reciprocity is more normative in China because of the long term perspective that emphasizes enduring relations; therefore, Chinese people are not hasty in reciprocating favours. This aligns with the informant’s statement that he will try to return the favour not only to the referee but also to the referee’s family in the future.

#### **7.4.6 The Role of Weak Ties in Compensation Negotiation**

From the perspective of weak ties, similar to the findings from the previous sections, the primary function of weak ties is to provide more information to jobseekers. In order to turn this information to advantage as bargaining power during compensation negotiation, jobseekers need to make some efforts. Several informants expressed their concern about this:

*“I had gathered a lot of information about the level of wages and industry routine practices in this city before I attended the job interview. I spent many months gathering all of this information through different channels, mostly from hi-bye*

*[weak- tie] friends. My boss was very surprised that I had rich knowledge about this area. At the end, I not only got better starting pay than my colleagues but was also able to gain my boss's trust since he is impressed by the size of my guanxi-wang; he thinks that maybe one day I can help him out with something.*” (Engineer, Die-casting Part Machinery, Factory 6)

*“Although I did not have a lot of connections [in this town] before I came here, I was willing to knock on doors and utilize every possible connection available, even if we may be just a little bit better than sheng-ren [weak ties] while collecting information about the job and company to which I have applied. Everything has a start, at least, I got a reasonable [market average] employment package, and avoided being taken advantage of by my boss in the very beginning.”* (Engineer, Die-casting Part Subcontractor, Factory 9)

Granovetter (1995) distinguished between the effects of information gathering and influence generating with regard to social networks and suggested that weak ties are useful in spreading information, while strong ties' trust and obligation are more advantageous in accessing influence. The informants' responses reflect the argument that weak ties do not bring the resources to influence others in compensation negotiation. However, this does not mean that jobseekers cannot use the information gathering ability of weak ties to gain bargaining power at the negotiation table. Morishima (1991) suggests that information plays an important role in wage negotiation. The informants' comments suggest that, although weak ties relationships with company insiders cannot be translated into bargaining power in employment package negotiations directly, however, the company information that is gathered from the weak tie relationship with the company insider can enhance the chance of jobseekers getting a better deal in an indirect way.

### **7.5 Cognitive Dimension of *Guanxi***

The cognitive dimension of *guanxi* is developed from the cognitive dimension of social capital, which focuses on the resources providing a shared meaning and understanding between the network actors. In studying how this dimension of *guanxi* influences the

effectiveness on job referrals with regard to individuals' employability, two major themes emerged from the data set: similar career ambition and similar personal background.

### **7.5.1 The Role of Similar Career Ambition in Job Searching**

Huang (2008, p. 468) suggests that *"in Chinese culture the individual is subordinate to the collective, thus self-identification and self-evaluation occur in terms of one's relations to the groups to the group and communities to which one belongs"* and it reflects how the *guanxi* is built. In other words, individuals are more likely to associate with each other and form relationships if they are from the same groups or community. The informants express in the following how individuals with similar career ambitions to the key referees may have an advantage when job searching:

*"... I want to work in this city, constantly catch up with the latest knowledge in my field, improve my lifestyle, be able to help my kids go to university overseas, and live happily in retirement...This is how I responded to one of my parent's friends [a factory owner] during a casual dinner when he asked me what I want to do after university. He seemed very happy and told me that he had the same idea when he was in my age, saying we are similar in mind and both have the courage to dream of a better live. [...]. After the dinner, he told my parents that I should go and talk to him to see if he had any vacancies in his factory or else he would be happy to be my referee when I need to find a job. [...]. Finally, one of his friends became my boss."* (Engineer, Die-casting Part Subcontractor, Factory 11)

*"My friend and I are close, like twins sister or, I should say, I am even closer to her than to my sister, and her parents like me a lot too. We met at university, we both studied mechanical engineering, we both like the same type of novels, we both like to play basketball and joined the school team, we have similar tastes, therefore we always go shopping together, and we always dream about having our own company in the future. After leaving university, she asked her father to use his *guanxi* [connections] to get her and myself a job at this company, so that we can stay together. We work really hard here and hope one day we can have our own factory together."* (Engineer, Die-casting Part Subcontractor, Factory 9)

The informants suggest that having similar career ambitions to the referees makes the latter want to help them. Having similar career ambitions allows jobseekers to build special relationships with their referees and motivate the referees to provide more job information, as

well as play a more active role in helping jobseekers to get a job by influencing the hiring decision maker.

### 7.5.2 The Role of Similar Personal Background in Job Searching

Other than having similar career ambitions, the informants suggested that having a similar personal background can also help jobseekers to establish *guanxi* with the referees who assist them with their job search activities. There are several examples in my findings that support this claim:

*“The company also likes us to introduce our shou-ren [relatives, tong-xiang, tong-xue, etc.] to our company. From the company’s point of view, they can reduce the cost associated with searching for good candidates. For ourselves, we like to work with people to whom we are similar, maybe with the same background, same values, same working attitude, etc. because it is easier to cope with, and this helps to minimize conflict in the workplace.” (Engineer, Die-casting Part Machinery, Factory 7)*

*“If there is a chance [job opportunity] here, I would definitely tell my best friends [tong-xu from the same technical institution] to send in their applications. We have the same values and work ethics, that’s why we are so close. We can cooperate with each other much better on the given tasks, because we can communicate with each other much better.” (Engineer, Surface Treatment, Factory 12)*

*“My supervisor and I were in a senior/junior relationship at university, including ourselves, more than half of the people here in the engineering department come from the same province or even the same home town, and we get along really well, sometimes we even use our dialect during project discussions. Most of the engineers were referred by my manager, who is himself from the same province; he always says we need to support each other when we are far away from our home town.” (Engineer, Die-casting Molding/Tooling, Factory 3)*

Cheung and Gui’s (2006) work on *guanxi* and job searching found that successful cases of *guanxi* use most commonly reveal that close *guanxi* is rewarding, such as between close friends or individuals from the same village or town. These people are closely bonded and willing to help each other to search for and provide information about the available jobs. My findings reflect this claim. The informants suggest that they like to refer people with a similar personal background to their company, because they feel that they are easier to work with. Moreover, the informants also indicate that this familiarity allows them to cooperate better

over job related tasks, due to the better communication. In other words, by finding people with similar backgrounds, the company can also help to improve its performance.

### 7.5.3 The Role of Similar Career Ambition in Job Matching

In terms of the influence of a similar career ambition and personal background, the respondents raise the issue about workplace harmony. Chinese culture has been characterized by collectivism and Confucianism, with an emphasis on social harmony, which can also extend to the workplace (Wong *et al.*, 2010). More specifically, Chinese employees wish to get on with their colleagues, with a strong sensitivity to workplace harmony. My findings reflect this and suggest that finding jobseekers that have a similar career ambition and personal background can help to maintain workplace harmony. In this sense, job seekers who meet either of these conditions will appear to be more suitable for the job.

Several informants express their concern about having similar career ambitions in relation to job matching:

*“My dream is to expand my business internationally. I want to hire employees with this kind of ambition and necessary capability. In order to get my company on track toward this goal, I demand a lot from my employees in terms of both quality [new product and fixture design, efficiency improvement methods] and quantity [long working hours, multi-tasking capability]. [...]. My friends who know me well will not recommend someone to me if they think the person they referring to me cannot handle this or does not share my vision.” (Owner, Die-casting Part Machinery, Factory 6)*

*“In our R&D team, we once had a hard time when someone who seemed to come from a different planet joined us. Although he had graduated from a well-known university, he was unwilling to share [new ideas or technical knowledge], most importantly, not like us, he refused to join us and always said he hated the dialect and food of our province, [...], it was never going to work, he left the company after two months. [...], we use this as a good example to show that it is essential to ensure that newcomers fill well into our team, we do not necessarily need to be identical but we need to have a certain degree of similarity in order to ensure that the work is done efficiently.” (Engineer, Die-casting Part Subcontractor, Factory 11)*

*“In order to achieve higher efficiency, you have to have those who work together with the same work momentum; this can be better achieved if these people share something similar, it can be something so obvious like the same language, or something more intangible like value [e.g. work attitude, career ambition, etc.]. This*



*condition can easily be achieved by employee referrals, since people usually refer someone with whom they have a close relationship and, if two people are close, they are probably quite similar to each other.” (Engineer, Die-casting Part Subcontractor, Factory 10)*

The informants’ responses imply that individuals who have similar career ambitions can maintain harmony in the workplace. There are two reasons for this that emerged from the responses. The first reason is that individuals with similar career ambitions are willing to make extra effort (i.e. work longer hours) at work. The informants suggest that referees who are familiar with this situation will only recommend someone who has the same career ambition in the workplace. The second reason is that individuals with a similar career ambition usually have the same interest and are more willing to share information with each other. The informants point out that, in the product development process, it is very hard to work with someone who is not interested in the task or unwilling to share. Because these tasks require employees constantly to explore new ideas, attending brainstorming sessions in order to make creative improvements, therefore, it is not suitable for every jobseeker.

#### **7.5.4 The Role of Similar Personal Background in Job Matching**

Other than finding individuals who share similar career ambitions, the informants also suggest that another way to obtain job matching is to use job referrals to find someone with a similar personal background. The following statements support this argument:

*“I like to work with someone from the same town. It is easier to communicate with each other because we can speak the same dialect [language]. Therefore, we feel closer to each other and it is easier to cooperate over work. [...]. When I was looking for a place to work, I ask my relative to recommend me to the factory where many people from my home town work.” (Engineer, Die-casting Part Machinery, Factory 6)*

*“You can see that, in the cafeteria, people from the same place [province, town or village] tend to sit together and talk with one another in the provincial dialect. I found that people from the same place find it easier to get along with each other; I even behave in the same way. I use this concept in recruitment, by asking my employees to recommend someone whom they know from their home town who is well-suited for a particular task. [...], I am very surprised by how many good*

*employees I found and this eventually helped to enhance our efficiency.” (Owner, Die-casting Part Subcontractor, Factory 11)*

The informants suggest that individuals from similar personal backgrounds tend to get along better in the workplace. It makes it easier for them to work cooperatively on a given task. One informant explained that this may be because individuals from the same place can speak the same dialect, which makes them feel close to each other and more willing to cooperate in the workplace. It means that it is easier for individuals to obtain job matching by choosing to work somewhere with many individuals with a similar personal background, if the jobseekers make workplace harmony a high priority. Job referees play a critical role here, given that they have more knowledge of both the candidates and the workplaces.

#### **7.5.5 The Role of Similar Career Ambition in Compensation Negotiation**

My findings suggest that an individual having either a similar career objective or personal background can lead to advantages with regard to compensation negotiation, as jobseekers that are supported at work by their employer report that it is easier to gain support from a boss who shares similar objectives.

*“I want to work for a boss who appreciates my work and contribution. I am a highly productive employee who is willing to spend extra hours at work in order to get the job done. I would find it very frustrating to work somewhere where the boss does not support my ideas and show his/her appreciation through giving appropriate rewards.” (Engineer, Die-casting Part Machinery, Factory 6)*

*“I believe in ‘work hard, play hard’, I am willing to work hard and make a contribution to the company that I work for, but I also look for a reasonable return after things get done. But my previous boss did not share this view; therefore, I will never introduce anyone to him because I do not want to lose mianzi when other people know that I work someone who does not know how to show appreciation. And, as you see, I also left that company and came to work for my current boss when my friend referred me to him.” (Engineer, Surface Treatment, Factory 13)*

*“It is easier to negotiate wages with a boss if he truly appreciates your contribution to the company. However, to be honest, they are very hard to find.” (Engineer, Die-casting Part Subcontractor, Factory 10)*

Mizruchi *et al.*'s (2011) work on the role of social networks in the workplace divides social networks into two types: information networks and approval networks. The former involves the quest for acquiring information to do one's job while the latter means acquiring one's superior's support for performing certain tasks. Both types of social network in the workplace have a big impact on the employees' compensation. The informants' view that having a boss with similar career ambitions to oneself can improve one's rewards is similar to Mizruchi *et al.*'s (2011) description of approval networks. The informants suggest that their bosses are willing to pay them more if they appreciate the former's talent and support their ideas about work-related project.

#### **7.5.6 The Role of Similar Personal Background in Compensation Negotiation**

The informants also report that having a boss with a similar personal background can help one to gain bargaining power during compensation negotiations. On the contrary, this improvement in bargaining power is not based on job performance and the employees' own efforts, but rather on external social pressures. Several informants made observations about this:

*“Because, when these workers go back home during the holidays, they will talk about their experiences with their family and friends, make comments, discuss how well or badly this boss treats his employees. Therefore, bosses or senior supervisors usually treat the employees and junior staff who come from their own home town better than others. They see this as a mianzi-related issue and do not want to lose face in front of people from their home town.” (Engineer, Die-casting Part Machinery, Factory 4)*

*“My boss does not want to lose face in front of his former schoolmates or be criticized by his friends from the same circle [network], so he gives a better employment package [above the market average] to those employees who were referred to him by his tong-xu or by those within his social circle.” (Engineer, Die-casting Part Subcontractor, Factory 9)*

*“Sometimes, it is actually easier to just say no when my relatives want to me recommend their children to my factory. However, if I say yes, I usually take good care of them. That means paying them above the market standard, more holidays, more on-site training, etc.; otherwise I feel that I would lose face when I see my relatives.” (Owner, Die-casting Molding/Tooling, Factory 3)*

The informants reveal that, when Chinese employers hire someone with a similar personal background (i.e. from the same town or village), they face external social pressure from the network actors to whom both parties are connected, since both the referees and network actors believe that the result of hiring an employee from within the same network (i.e. with a similar personal background) is that the employer will show his gratitude as a member of the group. Therefore, this particular employee deserves better treatment (i.e. better compensation) than others who are not from the same social network cluster. This creates external social pressure that influences the employer's decision regarding the compensation package. As the informants suggested, employers fear losing face in front of the members of their network if they do treat better those employees who are referred by people from the same network.

## **7.6 The Relational Dimension of *Guanxi***

The relational dimension of *guanxi* was developed from the relational dimension of social capital, which focuses on the role of the direct ties between the actors and the relational as opposed to structural outcomes of the interaction. In studying how this dimension of *guanxi* has influenced the effectiveness of job referrals with regard to individuals' employability, one major theme emerged from the data set: trust in the referee's competence. I will discuss how this plays an important role in job searching, job matching and compensation negotiation.

### **7.6.1 The Role of Trust in a Referee's Competence in Job Searching**

In terms of job searching with regard to the relational dimension of *guanxi*, the respondents indicate that having trust in a job referee's ability to help jobseekers to find a job is the most important consideration when choosing a referee. Several examples reflect this view:

*“I want to find someone whom I can really trust to help me to find a job. I want to be sure that he will not introduce me to a harsh boss or a factory with very poor working conditions or an uncompetitive employment package. It took me a long time and cost lots of money to travel from my home town to here. I do not want to take the risk of getting here only to find out that this is not a place where I’d like to work.” (Engineer, Die-casting Part Subcontractor, Factory 10)*

*“One of my father’s friends recommended me to this factory. He has worked here for over five years and really knows a lot about this company. My father and I trust him very much. [...] The result proves that he was right, although this is not a large or well-known company, certainly it is a good place to work, and I learn a lot of new industry technology here.” (Engineer, Die-casting Part Machinery, Factory 3)*

The informants’ suggestions raise two important issues with regard to job searching. The first is job screening. The informants suggest that they look for referees whom they can trust to help them to find a job. This is because they often want the referees to help to pre-screen the job offers before making any recommendations to them. In this sense, the level of trust that the jobseekers held towards the referees plays an important role when the former select the latter. Moreover, the referees’ credibility also has an impact on the employer’s hiring decisions:

*“I only hire job candidates when I trust their referee’s judgement of their talent and skills. I had someone in the past that caused a lot of trouble in my factory, but I hesitated to fire him because I felt that this action was disrespectful to the referee, this put me in a very difficult situation. Now, I will only hire someone when I trust the referee’s ability to spot real talent. Even my best friend, if he is not good at that [spotting a real talent], I’d rather to disappoint him now than destroy our friendship later.” (Owner, Die-casting Part Subcontractor, Factory 9)*

Huang (2008) found that Chinese employers perceive trust when recruiting employees through *guanxi* networks as reducing the uncertainty and potential risk. My findings support this argument and further suggest that not every *guanxi* network is trustworthy. The employer respondent suggests here that his hiring decision also depends on the competence of the referee. In this sense, the referee’s credibility can influence the confidence of his represented network in the quality of the candidates in the eyes of the employer. In other words, jobseekers that use inferior referees can undermine their image of competence to perform the work, as perceived by the employers.

### 7.6.2 The Role of Trust in a Referee's Competence in Job Matching

The informants suggest that their trust in the referees' competence has a big impact on their decision whether or not to apply for a vacancy. They expressed the following concerns:

*"I think that my friend is the best person to help me find a job. He knows me very well, my personality, what I like, what I dislike, etc., most importantly, I trust him a lot. We have been through a lot of things together; I know that he will not randomly make a job referral without deep consideration." (Engineer, Die-casting Part Subcontractor, Factory 9)*

*"I am now the chief engineer in the engineering department and now can totally understand why a referee's knowledge about the job and workplace are so important. It is very common for people to use guanxi to get a job; however, sometimes, things will go wrong. For example, mismatches happen, because the people whom you ask for help may not know the field/industry very well, they may be able help you to get a job, but it is very difficult for you to be sure you will like it." (Engineer, Die-casting Part Subcontractor, Factory 11)*

*"My friend has been working in this region for over fourteen years, he know lots of things here and is really familiar with the area. Therefore, when I wanted to come here to find a job, he told me immediately which companies are the so-called good choices. He told me a lot of things about these companies and convinced me that this [his current factory] is the right place. Turn outs, it is so true, I like my job very much." (Engineer, Die-casting Part Machinery, Factory 7)*

A careful reading of informants' stories suggests that the referees' competence relates to their knowledge about the jobseekers and the job. One informant indicates that he tended to trust his referee's recommendation because he had known the referee for many years and the referee was familiar with his likes and dislikes; therefore, he trusted this referee's judgement of the compatibility between himself and the job in question. More specifically, the referees' knowledge about the jobseekers influences their level of trust in the referees' endorsement. Another type of trust that my research found is based on the referees' knowledge about the job, such as the job tasks, responsibility and working environment. The informants suggest that they tend to trust the referees more if the latter are company insiders or have wide experience in the job field. Although *guanxi* is widely used in China as a tool for enhancing employability (Zhang and Li, 2003; Cheung and Gui, 2006), I found that, although jobseekers use *guanxi* widely to determine the fitness between the job and the individual, they still pay

close attention to a referee's expertise in the given job field instead of only trusting referees who are close to them.

### **7.6.3 The Role of Trust in a Referee's Competence in Compensation Negotiation**

In terms of compensation negotiation, the informants report that the employer's trust in the competence of the referees can determine the jobseekers' bargaining power. The following quotations provide evidence for this claim:

*"My boss paid me very well when I first got here, because my friend [the referee] told my boss that I am very good at CNC programming, and if he does not pay me well, I will leave his company very soon and may even join his competitor's company. He [the referee] and my boss are very good friends, that's why my boss trusts him a lot and, therefore, I got an attractive pay package. In return, I am glad that I helped to increase our productivity and avoided my friend losing face." (Engineer, Die-casting Part Subcontractor, Factory 10)*

*"It is all about whom you ask for help. If you find someone whom your boss trusts a lot, he [the referee] may help you to get a better starting salary, since he has the creditability to help you to speed up the recognition or verification process." (Engineer, Die-casting Part Subcontractor, Factory 11)*

*"If you want to get a nice employment package, you need to find someone who is well-known in the industry or local area, whom your boss trusts, to help you during the compensation negotiation process, because, in the beginning, your boss does not know a lot about you, but with someone's [the referee's] help, he may pay you well, otherwise, it usually takes some time for you to first make your contribution to the company before you can get that level of pay." (Engineer, Die-casting Part Machinery, Factory 6)*

Kugler (2003, p. 533) suggests that *"referred workers earn higher wages and have higher productivity because referrals provide information either to employers about the unobserved quality of workers or to workers about the quality of matches"*. My findings support this view as well. The informants suggest that referees play an important role in passing relevant information about both the employer and jobseekers on to each other. Therefore, employers can take advantage of securing a good workforce and jobseekers can increase their bargaining power with regard to compensation. Furthermore, my findings also demonstrate that this effect can be enhanced if both parties have high trust in the arguments put forward by the

referees. When both parties have high trust in a referee's competence to make good referrals, the jobseekers have more chance of getting a better compensation package.

## 7.7 Chapter Summary

In this chapter, I will focus on studying job referrals with regard to developing knowledge resources through bridging information asymmetries in network-based informal labour market. The findings suggest that *guanxi* plays an important role in facilitating the job referral process. Employees can use *guanxi* to access more job information, including vacancies, the working environment, skills qualifications, salary level, and so on, which can help them to be prepared for any arising job opportunities. Job referrals provide several advantages. Firstly, it means that individuals can be included who might not otherwise hear about and apply for the job. Secondly, referees tend to pre-screen job applicants before making their recommendations. Thirdly, referees can help both the employee and employer to acquire more information about the job applicants. Finally, referral hiring will help the employees to become familiar with the new job environment quickly. Using the interview data, I further explored three key job referral activities: job searching, job matching and compensation negotiation among privately-owned Chinese SME manufacturers, and the role played by *guanxi* in these activities. In terms of job searching, I found that *guanxi* facilitates informational exchange and reduces the associated costs due to the absence of formal information channels. In terms of job matching, I found that jobseekers want to know more about the company, so the referees can help jobseekers to reduce their uncertainty by providing more detailed information about the vacancy, which leads to better job matching. In terms of compensation negotiation, I found that job referrals allow jobseekers to gain an advantage in compensation negotiations through being able to learn more sensitive information about the job compensation.



I also further explored how each dimension of *guanxi* (structural, cognitive, and relational) plays a different, influential role in the process. In terms of the structural dimension of *guanxi*, I found that weak ties mainly play a role in passing information between employers and jobseekers, while strong ties play a more dominant role in influencing the hiring decision. In terms of the cognitive dimension of *guanxi*, I found that jobseekers with similar career ambitions to their employer or referee are able to build special relationships with them and so gain an advantage in the hiring process. On the other hand, jobseekers with a similar personal background to their employer or referee can also generate social pressure to force their employers to treat them more favourable. Finally, in terms of the relational dimension of *guanxi*, I found that referees play an important role in passing on relevant information about both the employer and jobseekers to each other, when both parties place high trust in the referee's competence to make a good referral, and the potential employees have a better chance of succeeding in their job hunt and gaining a better compensation package. The next chapter will offer a general discussion of the findings, and I will present the conclusions and policy implications emanating from this research. An attempt will be made to explain the significance of this research and its contribution to the academic literature, and I also take this opportunity to discuss the research limitations and future research opportunities.

## CHAPTER 8

### GENERAL DISCUSSION AND CONCLUSION

#### 8.1 Chapter Overview

The purpose of this thesis has been to investigate the process of developing knowledge resources through bridging information asymmetries in network-based informal labour market. This chapter briefly summarizes this research and discusses the business and policy implications that can be derived from our findings and results, as well as highlighting its contribution to the academic literature. It is divided into three distinct sections: the first compiles and restates our learning outcomes and research findings, while the business and policy implications are discussed in the second section, and the third section concludes the thesis by highlighting its limitations and proposing future developments.

#### 8.2 Learning Outcome and Research Discovery

For a manufacturing firm to increase its capability with regard to research and development, it must be able to form new knowledge, which is often achieved through acquiring it from individuals (Baranson, 1997; Brewer and Nollen, 1998; Zhao *et al.*, 2005). Although the literature noted that emerging manufacturing firms attempt to enhance their organizational capability by seeking knowledge transfer and the joint creation of new knowledge through vertical and horizontal networking (Kogut and Zander, 1992; Porter and Sensenbrenner, 1993), however, when the concept of social networks is applied in the Chinese context, the personal relationship (or well-known “*guanxi*”) plays an more important role in knowledge transfer and the mobility of skilled workers (Chen and Chen, 2004; Chen *et al.*, 2004; Lu *et al.*, 2008). Knowledge is a type of organisational resource. Easterby-Smith and Prieto (2008) point out that knowledge is a critical factor that allows organisations to

reconfiguring themselves into new capabilities and competences. By itself, knowledge opens more opportunities for organisation to engage in the marketplace. By utilising this, the organisation can make better use of other existing resources to develop a new, more advanced capability. In order for firm to enjoy the benefit of knowledge, they must acquire it in the first place.

Crouch's (2005) work has identified five institutions that help the development of knowledge resources: the state, the market, corporate hierarchy, associations, as well as communities and networks. His works are highly embedded in the concept of human capital, as knowledge has to be acquired by the individual who possesses it and it is the employers who use these skilled workers to develop a firm's capability. For my research target (privately-owned Chinese SME manufacturers), skilled workers play a critical role in the knowledge resources development practices (Dividsson, 1991; Dividsson and Honig, 2003), because a large, well-established business has a track record (business routines) and established business experience of what works and what does not in the execution of certain organizational tasks, so SMEs which lack established business routines may suffer greatly when a key skilled worker leaves or benefit significantly when an additional key skilled worker joins the business (Unger *et al.*, 2011).

My research has argued that the Chinese business environment has been heavily influenced by Confucianism (Chen, 1995; Lee, 1996; Chen and Chen, 2004) and the socialist market economy system (Park and Luo, 2001; Wright *et al.*, 2002), I suggest that social networks can act as suitable institutions for privately-owned Chinese SME manufacturers. In order to address the issues related to the development of knowledge resources through bridging information asymmetries in network-based informal labour market, this thesis extends the discussion of Crouch (2005) in this three issues: (1) informal rules that govern the information transfer about skill availability and labour matching process; (2) employer's

ability and strategy to acquire skilled workers from social networks; and (3) talented employees' use of social networks to enhance their employability. At the same time, *guanxi* provides the motivation and behavioural norms for the relationship between the members of society, distributing the benefits and opportunities, which lubricate the efficiency and effectiveness of firms operating within the Chinese business system (Fock and Woo, 1998).

To address my research questions, I use inductive/qualitative in-depth interviews to study the behaviour of privately-owned Chinese SME manufacturers in Guangdong province, China. From among the many subdivisions of the industrial sector, for this research, I choose to study individuals from the “die-casting” industry. The designing of die-casting parts is a very complex process, requiring experience, domain knowledge, and problem-solving knowledge. Since each engineering part can be highly specific to an individual machine with a particular function in a certain circumstance, therefore, the knowledge about designing engineering parts can be highly specific. In addition to its complexity, the design of the finished product may well change from year to year, which leads to frequent changes in the design of the machinery parts. Therefore, the individual engineer's experience of designing and producing engineering parts using the die-casting process is extremely important for privately-owned Chinese SME manufacturers' success. In total, I interviewed 86 informants, who were drawn from 13 privately-owned Chinese SME manufacturers. The personal face to face interviews typically lasted for around 60 to 75 minutes. I performed the data analysis by following three general steps: transcription, coding and analysis. I used a qualitative method tool, Nvivo 7, to assist me during the process.

For the informal rules, I found that the formation of the informal rules in Chinese society is based on three main components: principal-agent, reciprocity, and relationship hierarchy. The principal-agent component is driven by the concept of the principal-agent problem, where the principal (i.e. owner, partners, or shareholders of privately-owned Chinese SME

manufacturing companies) has conflicting interests (i.e. knowledge sharing) to the agent (i.e. managers, engineers, and other employee), due to goal divergence and information asymmetry (Eisenhardt, 1989a; Meuleman *et al.*, 2010). The informal rule that solely developed from the principal-agent principle is the anonymity rule, which means that most people want to remain anonymous during the process when they consider that they are exchanging trade secrets (i.e. sensitive knowledge). The second key component of the informal rules is reciprocity. It refers to the set of social norms regarding a transaction whereby one party extends a resource to another in the expectation that the favour will be returned later (Aselage and Eisenberger, 2003; Cropanzano and Michell, 2005; Wu *et al.*, 2006). The informal rule that solely developed from the reciprocity principle is *huibao*. The third key component of the informal rules is relationship hierarchy. It is based on the pattern of hierarchical social relationships existing in Chinese society (Chen, 1994; Su *et al.*, 2007). The informal rule that solely developed from this informal rule principle is the *lun* rule, under which an individual, or the firm that the individual represents (i.e. works for), will receive preferential treatment from those in the higher ranks of the relationship hierarchy. I further identify four more informal rules based on the interaction of these three informal rule components. The *liyi* (benefits exchange) rule was built upon the combination of the principal-agent and reciprocity components. Under the *liyi* rule, the activities of bridging information asymmetries are purely based on benefit exchanges. The *renqing* (human debt to acquaintances) rule has high degrees of both the reciprocity and relationship hierarchy components. It represents one's informal social obligations to another party. The *mianzi* (face) rule combines both the principal-agent and relationship hierarchy components. The exchange takes place usually by one party providing actual benefits (i.e. knowledge) and the other merely acknowledging this. Finally, the integrated rule demonstrated high degrees of all three informal rule components. In complex network systems, the individual uses all three

components of the informal rules to establish confidence in network relationships. For example, the individual gives an incentive or social pressure to invoke cooperative behaviour on knowledge sharing and offers the anonymity shield to protect the agent's identity to share important information with him/her.

For recruitment practice, I learnt that the Chinese SMEs can use their social networks to overcome their "liability of smallness" in terms of hiring skilled workers. I found that recruitment through social networks allows small privately-owned Chinese SME manufacturers conveniently fill their job positions when necessary, even though the firm is only hiring one or two candidates at a time. This helps the small privately-owned Chinese SME manufacturers to overcome the barrier of a lengthy formal recruitment process. My findings also show that small privately-owned Chinese SME manufacturers prefer to choose inexpensive ways to engage in recruitment, and the use of social networks provides an inexpensive way for them to acquire talent, so they can concentrate their capital on improving their production process (by purchasing machinery). Despite the fact that the smaller privately-owned Chinese SME manufacturers tend to be less attractive employers than bigger firms, social networks can help companies to enhance their attractiveness through emphasising the close fit between the job candidates and the company. Finally, I found that Chinese employers use their social networks to find out more information about their potential employees to ensure that they fit in well with their organization.

Each dimension of social capital plays a role in facilitating recruitment practice through social networks. In terms of the structural dimension of social capital, my findings suggest that *guanxi* networks help privately-owned Chinese SME manufacturers to employ two critical tactics in their recruitment practices: reaching more people and accessing key contacts. In terms of the cognitive dimension of social capital, I found that the commonality among the actors within social networks plays a very important role in facilitating recruitment practices

through social networks in the privately-owned Chinese SME manufacturing industry. There are two facets that are especially important in facilitating the process of accessing and recruiting key skilled workers: a common background and common understanding. In terms of the relational dimension of social capital, I found that trust, norms, obligations and expectations play a critical role in facilitating recruitment practice through *guanxi*. In terms of trust, I found that the most time and money are saved by using recruitment practices through social networks when employers trust the individuals who refer the job candidates to them.

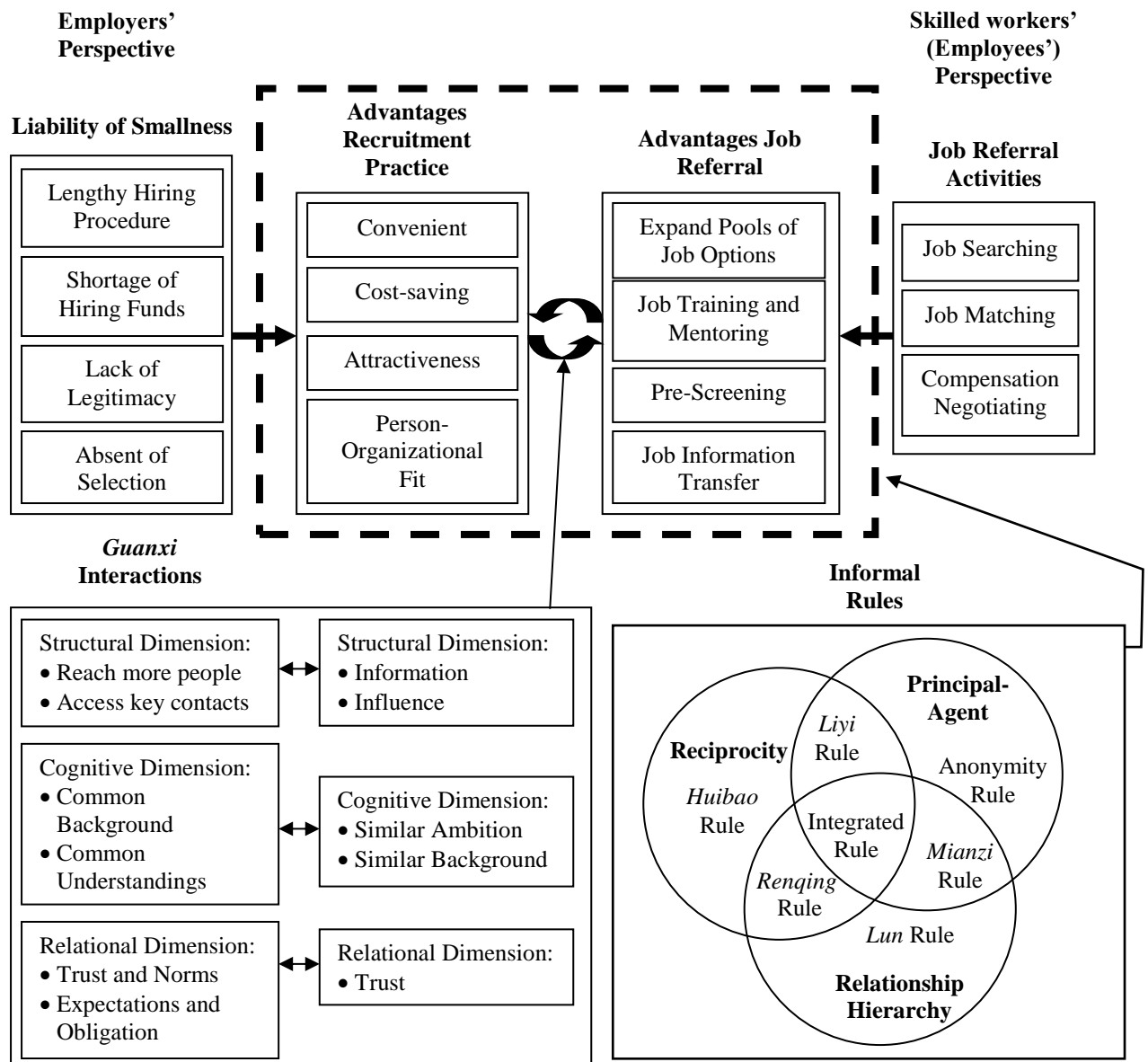
Finally, regarding job referrals, I identified three key job referral activities: job searching, job matching and compensation negotiation. For the former, social networks facilitate information exchange and reduce the associated costs due to the absence of formal information channels. For job matching activities, I found that jobseekers want to know more about the company, which they cannot find out by using any media channels. They believe that the referees can provide them with more information about the jobs, and hence they can accept job offers that are more suitable to their needs. For compensation negotiation activities, I found that using social networks to find a job in the privately-owned Chinese SME manufacturing sector allows jobseekers to gain an advantage during compensation negotiation. The informational advantage is created through the company insider (referee) passing on some sensitive information that is relevant to the compensation negotiation to the jobseeker. I also found that the each dimension of social capital plays a role in facilitating job referral activities through social networks. In terms of the structural dimension of social capital, my findings suggest that *guanxi* networks help skilled workers to acquire more information about the job and influence the hiring decisions, while a strong tie relationship with company insiders plays a more dominant role in securing job offers and receiving favourable treatment in terms of job compensation. For the cognitive dimension of social capital, I found that having similar a career ambition and personal background to the

employers or hiring agents allows skilled workers better to utilise the advantages of their social networks with regard to job referrals. For the relational dimension of social capital, I found that having trust in the referee's ability to help jobseekers to find a job is the most important consideration when choosing a referee, because skilled workers often want the referee to pre-screen the vacancies before recommending them to them. Therefore, the candidates tend to trust the referee's recommendation because the referee has known them for many years and are familiar with what they like and dislike, so they trust the referee's judgement of the compatibility between themselves and the job in question.

Here, I want to argue that all of my findings can be integrated into a consolidated framework for the process of developing knowledge resources through bridging information asymmetries in network-based informal labour market (Figure 8.1):



**Figure 8.1 Consolidated Framework**



Developed in this research

In this consolidated framework, I combine the organizing framework from my three core chapters. From the employers' perspective, to overcome the liability of smallness, such as a lengthy hiring procedure, shortage of hiring funds, lack of legitimacy and absence of selection, the privately-owned Chinese SME manufacturers use their social networks to obtain advantages in terms of convenience, cost saving, attractiveness and person-organizational fit. From the employees' perspective, they use job referral techniques, such as job searching, job matching and compensation negotiation through social networks, to attain an advantage by expanding their pool of job options, job training and mentoring, pre-

screening and job information transfer. When both employers and employees use social networks, their interactions (*guanxi* interactions) take place among the actors. Using the structural dimension of social capital and its associated *guanxi* specifications, employers wish to reach more potential candidates and access the key *guanxi* contacts (for the purpose of accessing more qualified candidates). At the same time, the skilled workers wish to use *guanxi* specifications (under the structural dimension of social capital) to gain more job information and influence the hiring decisions. Using the cognitive dimension of social capital and its associated *guanxi* specifications, the employers want to hire potential employees using existing employees who share a common background and understanding with the potential candidates in order to increase their company's attractiveness. Similarly, the skilled workers want to work with employees who share a common career ambition and personal background with them in order to seek potential job training and mentoring assistance. Using the relational dimension of social capital and its specification of *guanxi*, both employers and skilled workers wish to develop trust in each other in order to avoid being manipulated.

Finally, the box with the dashed line represents the informal rules atmosphere during *guanxi* interactions. All of the actions that take place among the actors within social networks are governed by informal rules, such as “anonymity”, “*huibao*”, “*lun*”, “*liyi*”, “*mianzi*”, “*renqing*”, and “integrated” rules. I will discuss how each informal rule governs the information transfer on skill availability and labour match process separately here; however, as mentioned in chapter 5, these informal rules are closely interrelated and multiple informal rules can be used in sequence to enhance their impacts. Under the anonymity rule, both employers and employees can get sensible information about each other through third parties who may feel more conformable about sharing this if their identity remains anonymous. As a result, both employers and employees improve their understanding about each other, which is

important for accessing the person-organizational fit (and job matching) as well as compensation negotiation. Under the *huibao* rule, employers can acquire important information about good candidates who are capable of performing important tasks for the firm by rewarding the third party handsomely. On the other side, the employees can reward this third party well in exchange for his/her referring them to good employers who provide a pleasant working environment and are trustworthy. Under the *lun* rule, employees who are in a higher position in the relationship hierarchy can use this to their advantage to negotiate a better compensation package. Moreover, employers can utilize it to increase the attractiveness of firms by communicating to the potential job candidates that they will be working with someone who is in an upper position in the relationship hierarchy. Under the *renqing* rule, employers can increase their firms' attractiveness by mentioning to qualify job candidates the past favours that the employers have done for them or those in their close social circle to make the job offers more appealing. The employee, on the other hand, can increase the scope of his/her job search and the level of job matching by asking the third party (usually of a higher ranking in the relationship hierarchy) to introduce them to more job opportunities. Under the *liyi* rule, employers can highlight the potential benefits that the third parties will receive if they help them to secure good job candidates in a timely fashion. Similarly, employees can also highlight what the third party will receive if they provide them with information about job opportunities that match their personally and skills. Under the *mianzi* rule, employers can emphasise that they will acknowledge the good behaviour of the employees publically so they will have a good reputation among their peers, in exchange for a cheaper package in the job compensation deal. At the same time, employees can also let it be known that they will acknowledge the good behaviour of employers to increase the attractiveness of the firm, in exchange for a better job compensation deal. Finally, under the integrated rule, both employers and employees use all of the necessary traits of *guanxi* at the

same time to influence the behaviour of each other and the third party to maximize their benefit in the labour matching process.

My integrated framework shows how the actors take advantage of the dynamics of their social networks to get what they want in the labour market of the privately-owned Chinese SME manufacturing industry. My analyses generated three central clusters: (1) informal rules; (2) recruitment practice; and (3) job referrals. The actors drew on the different dimensions of social capital and their associated *guanxi* specifications to foster their advantage in the social network and obtain their objectives, which eventually contributes to the purpose of developing knowledge resources for SMEs.

Although the above discussion has highlighted that social capital and its associated *guanxi* specifications can help the privately-owned Chinese SME manufacturers to bridge the information asymmetries in the network-based labour market, however I also want to acknowledge some potential downsides to this, even though that my informants did not reveal any evidence of this. Firstly, it has the downside of blindness. Gu *et al.* (2008, p. 18) suggest that “*the ties that bind may turn into the ties that blind*”. More specifically, they suggest that the *guanxi* network may reduce the flow of new ideas into the network and limit the openness to alternative ways of doing things (Gargiulo and Benassi 1997; Nahapiet and Ghoshal 1998; Woolcock, 2000). Given that *guanxi*, as an inward-looking system, is relatively slow to accept new members because it takes time to form strong, particularistic ties, Fukuyama (1995) describes this as a low-trust society, where people only trust others who are in their close social circle. When applied to the labour matching process, through their overdependence on using *guanxi* to bridge the information asymmetries to obtain information about good job candidates in the network-based informal labour market, firms may lose opportunities to hire very highly skilled workers, if they are not part of the immediate network circle of the employers or job referrers.

Second, there is a potential ethical concern in this kind of practice. Some experts are concerned about the ethical issue, such as whether the use of guanxi to hire skilled workers who have a close relationship (come from the same background) with the employer or job referrer can be considered indirect discrimination (e.g. Bian, 1997; Folk, 2003). Guanxi is a powerful tool for helping employers to secure skilled workers through the network-based labour market. However, the frequent use of ‘guanxi’ in the network-based environment to hire skilled workers who have a close connection with the interested parties (i.e. employers and job referrers) may raise questions about fairness in the Chinese labour market.

Thirdly, it opens up potential opportunities for corruption and bribery. When employers trust the third party individuals who refer the job candidates to them, this gives this third party individual (job referrer) an important role in the transfer of information about the job between the employers and employees, which opens up potential opportunities for corruption and bribery (Su and Littlefield, 2001; Su *et al.*, 2003). In this case, the job seeker, who may be unqualified for the job, can provide a “gift” for this third party individual (job referrer) in exchange for his/her name being put forward to the employers. As a result, the employers may lose the opportunity to hire more skilled workers to fill the open post.

Finally, it has the potential downside of inefficiency. Studies suggest that, on occasion, guanxi may overload one party with obligations to another party, so the focal party has to conform to the pressure by providing the other party with something in response (Uzzi, 1997; Gu *et al.*, 2008). In applying this situation to the context of this study, the job referrers (the focal party) themselves may not think that it is the right move (due to various reasons, such as the lack of necessary skills) to refer this particular job seeker to the employer. However, due to the guanxi obligations (i.e. close family members), the job referrers still press ahead with introducing the job seeker to the employer, because they feel obligated towards the former. On the other hand, this inefficiency can also apply in the opposite situation. For example,

Assimakopoulos and Yan (2006) studied information exchange behaviour among software engineers in Chinese high-tech firms and found that the engineers would rather check technological books, discuss issues with their colleagues within the local community of practice, or make enquiries via Internet technology forums, as we discuss next, than use *guanxi* to contact people outside the company, because of the demand for reciprocity. In applying this situation to the context of this study, both employers and employees may not wish to seek for information from individuals outside their close social circle in a network-based labour market, because they do not want to feel that they “owe” others a favour. As a result, this may create inefficiency in the labour market because the best candidates may not become known to the employers.

These four types of downside can occur in all of the labour matching processes discussed in my framework. For example, the employers consider that valuable information about suitable job candidates can only come from the actors within their close social network and they neglect any information obtained from other sources, such as job postings, employment agencies, and so on. At the same time, it also puts pressure on the job referrers to come up with lists of names of people who may not be suitable for the job but who have a close relationship with them to give to the employers, simply to relieve them of their obligation. On the employees’ side, they may attempt to bribe the key individuals who have a close relationship with the employers to help them to obtain a job or, in another extreme situation; employees may choose not to seek help from a network member because they do not want to feel an obligation of reciprocation. In general, employers may not secure the “best” employees for the job and employees may not secure the “best” job positions that match their skills level. As a result, *guanxi*, in this situation, can be considered a liability in the labour matching process.

### **8.3 Theoretical and Managerial Implications**

The purpose of this thesis is to explore the patterns of developing knowledge resources through bridging information asymmetries in network-based informal labour market in the privately-owned Chinese SME manufacturing industry and investigate the factors that explain these. The major theoretical and managerial implications of this research can be summarised in five ways.

The first implication of my research is providing a comprehensive view of the activities related to developing knowledge resources through bridging the information asymmetries in the network-based informal labour market among privately-owned Chinese SME manufacturing firms. Crouch (2005) indicates that social networks among firms and individual skilled workers can be considered as one of the institutions that help to develop knowledge resources. Several field researchers have already demonstrated the importance of social networks with regard to the development of knowledge resources (Streeck, 1992; Cooke, 1996; Powell *et al.*, 1996; Inkpen and Beamish, 1997; Almeida and Kogut, 1999; Porter and Ketels, 2003; Pittaway *et al.*, 2004; Inkpen and Tsang, 2005; Aldrich and Kim, 2007), as they provide many benefits, such as risk sharing, obtaining access to new markets and technologies, speeding products to market, pooling complementary knowledge and gaining access to partners' resources, which serve as keys for different skilled workers to seek cooperation with each other and this eventually contributes towards the formation of knowledge (Newell and Clart, 1990; Cooke, 1996; Eisenhardt and Schoonhoven, 1996; Swan *et al.*, 1999; Baum *et al.*, 2000; Carayannis *et al.*, 2000; Hagedoorn and Duysters, 2002). This research attempts to extend the current understanding about social networks that can help to bridge the information asymmetries in the network-based informal labour market by examining their applications in the Chinese manufacturing sector. Although the impact of social networks in Chinese society has been recognized by management scholars, however,

most of the researches in this area are related to either business strategy (Fock and Woo, 1998; Standifird and Marshall, 2000; Chou *et al.*, 2006) or organizational dynamics (Alston, 1989; Chen *et al.*, 2004; Chang and Lii, 2005).

Only recently have some researchers attempted to address the impact of social networks on knowledge resource development in the Chinese context (Jiang, 2005; Lee and Dawes, 2005; Assimakopoulos and Yan, 2006; Buckley *et al.*, 2006; Fu *et al.*, 2006; Lu *et al.*, 2006); however, it remains impossible to offer a comprehensive picture of the role that social networks play in bridging the information asymmetries in the network-based informal labour market in the Chinese context. My findings not only highlight the importance of social networks in bridging the information asymmetries for privately-owned Chinese SME manufacturers, but also provide a comprehensive picture of the activities taking place among the network actors. In particular, we follow Crouch's (2005) implicit suggestions about the key issues related to this subject, such as informal rules, recruitment practices and job referrals. Through considering the extent to which these issues overlap and diverge, I generated a consolidated framework (see Figure 8.1) to indicate how social networks allow the different actors to take advantage of their impact in order to engage in bridging the information asymmetries in a network-based informal labour market and how social capital and its associated *guanxi* specifically govern the dynamics of these activities. I elaborate further on each of the key issues in contributions two to five.

The second contribution of this research is the identification of the informal rules governing information transfer about the skill availability and labour matching process of the privately-owned Chinese SME manufacturing sector. As mentioned earlier in this chapter, previous researches about the informal rules in Chinese society highlight the *guanxi* relationship among the Chinese network actors (Lim and Bowers, 1991; Bond, 1996; Qing, 2008; Liao and Bond, 2011). For example, Park and Luo's (2001) work on *guanxi* and



organizational dynamics provides indications about *guanxi* principles, such as being transferable among the parties, reciprocal during the exchange, intangible in nature and utilitarian, based on the exchange of favours. However, there is no comprehensive study, to the best of my knowledge, that provides clear guidelines about the informal rules that govern the *guanxi* dynamic. In this research, I use agency theory, the relationship hierarchy concept and the principle of reciprocity in combination with the concept of social capital clearly to identify seven informal rules (“anonymity”, “*huibao*”, “*lun*”, “*liyi*”, “*mianzi*”, “*renqing*”, and “integrated” rules) that have been widely used in guiding information exchange activities in the privately-owned Chinese SME manufacturing sector (see chapter 5). The main theoretical implication here is that the informal rules about using *guanxi* to bridge the information asymmetries in the network-based informal labour market may now be more clearly specified. Different informal rules represent the function of both the type and intensity of three main components (principal-agent, reciprocity, and relationship hierarchy) that formulate the informal rules in Chinese society. Those seven types of informal rule that emerge in the typology suggest that the influence of *guanxi* is not a dichotomous variable, but that different combinations of social components contribute to its multidimensionality. When both employers and employees use *guanxi* to bridge the information asymmetries to engage in the labour matching process, the recognition and use of specific types of informal rules can help them to maximize the value in the network-based labour market in China. Thus, my research results extend the current studies of *guanxi* dynamics on identifying these collective actions among network actors to placing informal pressure on the network actors who are engaged in knowledge resources development practice in the privately-owned Chinese SME manufacturing sector.

In terms of managerial implications, the informal rules identified in the research can be used as a rule book for both new Chinese SME entrepreneurs and foreign brand vendors, who

wish to enter into partnerships with existing privately-owned Chinese SME manufacturers and develop joint projects. For example, when a partner wishes to obtain sensitive information from Chinese engineers by offering anonymity to those engineers who are willing to cooperate can increase the chance of obtaining important information about the project. In other words, the individual who is on the receiving end of the knowledge exchange will make sure that no third party will acknowledge the identity of person who leaks the information. The *huibao* rule can be used to enhance the reciprocity for developing the relationship into long term cooperation. The *lun* rule can be applied when the individual manager is aware that a relationship hierarchy exists in the relationship dynamics and uses it to his/her advantage when requesting assistance with a project. The *liyi* rule can be used when a manager recognises the potential benefits of exchange opportunities presented in the partnership relations. The *mianzi* rule can be enforced when managers are aware that the other party places great importance on preserving his/her own reputation for keeping a promise. The *renqing* rule can be used when managers seek to engage in potential cooperation with a target company; they should first attempt to build a relationship with someone who has influence over the decision makers of the target company and then use this third party connection to build a relationship with the target company. Finally, the integrated rule can be used when complicated network situations arise, which involve all three informal rule components.

The third contribution of this research is about recruitment practices in the privately-owned Chinese SME manufacturing sector. Previous researches on recruitment practice suggest that SMEs face several limitations when hiring knowledgeable employees due to the size of their organization, which is referred to as the “limitation of smallness”, such as facing lengthy formal recruitment processes (Barber *et al.*, 1999), lacking the financial resources to support proper recruitment practices (Cardon and Stevens, 2004), lacking employer

legitimacy (Williamson, 2000), and lacking well-established human capital selection procedures (Leung, 2003). My researches contribute to the current research on how SMEs overcome these limitations by further exploring how privately-owned Chinese SME manufacturers use different dimensions of social capital and its associated *guanxi* specifications to gain an advantage when engaging in recruitment practices through social networks to acquire talented skilled workers. My research results suggest that firms can use their social networks to reach and access more job candidates (structural dimension of social capital), attract skilled workers from similar backgrounds (cognitive dimension of social capital), and acquire key skilled workers using relational trust (relational dimension of social capital). These findings extend the current researches on the recruitment strategies of Chinese employers.

From the managerial perspective, using the structural dimension of social capital and its associated *guanxi* specifications, a firm's managers can use their social network to access more network actors in order to search for potential job candidates. This is because the larger the *guanxi* network is, the more convenient and economic it is for the focal firm to find talented candidates for the job. Moreover, having a wider *guanxi* network can also help a company to deliver its recruitment message to a wider audience, who may seek to apply for the vacancy. Using the cognitive dimension of social capital and its associated *guanxi* specifications, the company can identify potential job candidates by using its employees' social networks to search for individuals with a similar education and training background in order to avoid a lengthy candidate search process. Moreover, it also can help to enhance the legitimacy of the company because the employees can help the employers to spread the word about the company, such as the salary and working conditions. Finally, the using relational dimension of social capital and its associated *guanxi* specifications, the social network allows

both employers and employees to access more information about each other, which helps them to build trust in and positive expectations of each other.

The fourth contribution of this research is to the existing literature on job referrals. Earlier studies suggest that job referrals play an important role in Chinese business hiring (Bian *et al.*, 1997; Cheung and Gui, 2006; Huang, 2008). For example, Bain (1997) suggests that, instead of the weak ties which have to be considered as providing a bridge between the disconnected network actors for passing relevant job information in Western society and have a massive impact on job referral activities (Burt, 1992; Burt and Knez, 1995), in Chinese society, strong ties play a more important role in connected jobseekers with their desired jobs. Cheung and Gui (2006) found that a strong tie enhances the expectation of reciprocity from the referred person, which provides a bigger incentive for the Chinese referee to spend more energy on helping jobseekers to find suitable jobs. In this research, I take a step further to explore the influence of the different dimensions of social capital and its associated *guanxi* specifications with regard to job searching, job matching and compensation negotiation activities. My findings suggest that the different dimensions of social capital and its associated *guanxi* specifications play different roles in job referral activities in the Chinese informal (though social networks) labour market. For the structural dimension of social capital, I found that weak ties play a role in passing on job information while strong ties allow the skilled workers to influence the hiring decision of the hiring agents. From my study of the cognitive dimension of social capital and its associated *guanxi* specifications, I found that skilled workers with a similar career objective and personal background to the hiring agents have an advantage in securing desirable jobs. Finally, the relational dimension of social capital and its associated *guanxi* specifications provide the element of trust that enhances the power of the matchmaker in brokering jobs for skilled workers.

My findings on job referrals also yield some managerial implications. Using the structural dimension of social capital and its associated *guanxi* specifications, skilled workers can enhance their performance in terms of job searching. This is because the referees can pass on key information about the job, especially for highly-desired positions, to the skilled workers and help them to secure the position before the information is released to the job market, when there may be more potential rivalry for the position. Using the cognitive dimension of social capital and its associated *guanxi* specifications, skilled workers can ask people with similar career ambitions and personal background to themselves to help them to find a desirable job, because these people are closely bonded and willing to help each other to search for and provide information about the available jobs. Moreover, they are also more likely to help the skilled workers to negotiate for better job compensation. Finally, using the relational dimension of social capital and its associated job specifications, the chance of skilled workers finding a desirable job can increase if the skilled workers can find a job referee who is trusted by the hiring agents, because the referee's credibility can influence the confidence of his represented network in the jobseeker's quality in the eyes of the employer. The final contribution of this research is further to connect social capital and *guanxi*. Field experts have long agreed that a close relationship exists between the western concept of social capital and the Chinese notion of *guanxi* (Putnam, 2000; Park and Luo, 2001; Gu *et al.*, 2008). Despite this connection having been widely used to interpret research findings related to Chinese business relationships, there have been no further studies about how these two frameworks are actually connected. In this research, I first attempt to provide a more detailed discussion of the connection between social capital and *guanxi* and develop *guanxi* specifications that link to specific dimensions of social capital (see chapter 3), which connections helped me to interpret my research findings. My findings prove that these connections do exist between these two concepts. My research provides a new angle for

future researchers who wish to perform heavy text-based data analysis, such as content analysis or meta-analysis, when studying the impact of social capital on Chinese businesses.

Future researchers can apply and use my findings in three ways. The first area of promise is to call for a greater focus on informal rules of *guanxi*. An interesting aspect is to consider how different types of informal rules of *guanxi* influence the development and management of business relationships in China. I identified the different informal rules of *guanxi* in this research. It might be interesting to assess the ways in which Chinese SMEs build and leverage their business relationship using these informal rules. For example, how Chinese SMEs use *renqing* (human debt to acquaintances) rule to secure business opportunities from other firms. The second area of promise involves further extensions and application of ideas from human resource management theories on the recruitment in Chinese SMEs. Chinese SMEs, like all SMEs, possess the liabilities of smallness when hiring high value employees. My findings provide further understanding about how Chinese SMEs can take advantage about the network connections among job candidates and use “*guanxi*” influence to hire them. Thus, an interesting line of inquiry is to identify and examine the toolkits or skills needed to use networks and applied *guanxi* influence toward the network actors in order to achieve the outcomes that the firms are looking for. In other words, using my findings as the base, the future research can look for specific recruitment tactics using network relationship and *guanxi*. For example, how Chinese employers use *guanxi* influence to perform headhunting to acquire special talent in the executive level. The third area of future research opportunities is about how to use network relationship and influence of *guanxi* to search and apply jobs. In particular, my observations of job referring activities in China suggest that the role of different dimensions of social capital and its associated *guanxi* specifications played in assisting individual skilled workers to acquire appropriate jobs. It would be interesting to know how the specific tactics of using *guanxi* influences on searching, matching and

negotiating job compensations can apply to different job referring environments. For example, how the techniques about job referring that discovered from this research apply to virtual social network environment.

#### **8.4 Reflections on the Research**

The current study is not without its limitations. I identify several limitations in this research that also yield future research opportunities. Firstly, the generalizability of the current findings may be regarded as a limitation of this research, which focuses on a single sub-sector in a single industry. Although this focus allowed me to explore the variety of roles that *guanxi* plays in bridging information asymmetries in network-based informal labour market, however it may also hinder my ability to draw broader conclusions across the field; for example, my sample works exclusively in the die-casing sub-sector of the manufacturing industry, and the differences in the sub-sector norms may lead to the differences in the hiring process and how job referrals influence recruitment practices. Moreover, the conclusion of this research is based on a small sample of interviews. I was only able to secure 86 informants from 13 privately-owned Chinese SME manufacturers out of the total of 1,142 companies listed as die-casting companies under the four specific sub-categories of SMEs: “Surface Treatment” (N = 101), “Die-casting Part Machinery” (N = 418), “Die-casting Mold” (N = 138) and “Die-casting Part Subcontractor” (N = 485). Although the responses from these informants were very valuable, however my analysis is only based on the situation in these 13 firms alone, albeit drawn from a larger focused population. Additional studies conducted on different sub-sectors of the manufacturing industry could help establish the generalizability of the proposed conceptual framework. Future researchers might adopt the same research method and expand it to other industries, such as the financial and retail industry. This expansion to other industries would allow researchers to compare the

interviewees' responses and also perhaps identify the differences between different industry practices. Moreover, future research might also test the model developed in this research using large-scale quantitative studies to seek further confirmation of it.

The second limitation concerns the quality of the data. In this research, all of the informants wished to remain anonymous. I was only allowed to take detailed notes during the interviews and not record these verbatim. I tried my best to write everything down that was said during the interviews but, inevitably, I will have missed some of the messages that might contribute to the research findings. Nevertheless, I was able to record and produce long quotes, presenting them throughout this thesis using techniques such as writing shorthand notes in Chinese, asking the interviewees to repeat their sentences if I sensed that they might be important for the findings, and checking my notes with the interviewees at the end of each interview. If future researchers have better political connections and more access to the industry, they may be able to acquire more in-depth information (i.e. organizations' internal documents, e-mails) or be granted a more comprehensive study permit (i.e. be allowed to record interviews on an mp3 recorder, make field study observations). At the same time, I should also acknowledge the possibility that, if the researchers are too close to their research subjects, they may encounter problems in establishing objectivity, and the permission to record may diminish the informants' willingness to share their opinions and knowledge on a sensitive subject; for example, I foresee that further research on the sharing of trade secrets with other network contacts in private locations may prove problematic. In general, I still believe that having more access to information will help researchers to conduct a more comprehensive data analysis.

Thirdly, the choice of the qualitative research method may constitute another research limitation. It allowed me to build the theory about the existing relationships among the variables, but did not enable me to measure the strength of these relationships. For example,



in this research, I developed a theory about how the different dimensions of *guanxi* contribute in various ways to facilitating the activities of bridging information asymmetries in network-based informal labour market that ultimately helps a company to offset the liability of smallness. However, questions such as whether these three dimensions contribute equally cannot be answered using the qualitative research method. To answer this type of question, future research can develop the measurement of each dimension of *guanxi* using the discussion of this research and to test their effectiveness in improving the process formation practices to reduce a firm's liability of smallness. This can help to explain further the contribution of each dimension of *guanxi* towards performance.

Finally, a limitation arises with regard to the research design. This research mainly focuses on the development of knowledge resources from the perspective of bridging the information asymmetries in the formal or informal labour market in order to attain individual skilled workers who possess the knowledge that is necessary for the job, and less about learning and innovation. Therefore, when designing this research, I adopted a very broad definition of skilled workers. More specifically, I conducted a further differentiate of the types of expertise that different individual skilled worker may have, such as technological expertise, operation and managing skills, R&D expertise, marketing expertise, and so on. This is because the purpose of this research is to explore and develop a framework for developing knowledge resources through bridging information asymmetries in the network-based informal labour market in the Chinese context. Therefore, I did not probe any deeper during my interviews to distinguish between the different types of skilled workers, which may influence my finding about the activities of bridging the information asymmetries in the network-based informal labour market. Perhaps my model might be further improved by taking the different types of skilled worker into consideration. Future researches might explore this area and extend my framework to embrace the different situations.

Moreover, when designing this research, I focused on studying the network relationship at the individual level mainly because *guanxi* is an activity between individuals, but my research raised interesting questions about the potential link between the individual level and firm level. In this research, I was unable to identify the organization level differences between the 13 companies or the differentiation between the individuals' comments on the informal rules, recruitment and job referrals. The focus of this research was on SME manufacturers in China. For the organizational level differences, the fierce competition in the sector means that there is limited room for difference and diversity, and anything that is different from the sector norms is likely to be punished by the market. In terms of differences between the individual responses, these were not evident in the interviews, which may mean that there was considerable sector homogeneity such that widespread agreement amongst engineers and employers was the norm. Alternative, my research design may have provided sufficient encouragement to the respondents to express counter examples of the negative aspects of the role of *guanxi* in my research theme, for example. As a result, the responses that I received are very similar and I did not become aware of this issue during the pilot interviews. Future researchers should test for divergence and ask questions about the negatives as well as the perceived positives of *guanxi*. It is also possible that not tape-recording interviews may have meant I missed diversity, but I doubt this as I have thoroughly checked data as already discussed. The future research can attempt to adopt quantitative data and use statistical techniques such as t-test or ANOVA to identify the differences in the response. Despite these limitations, my research contributes to our further understanding of the role of *guanxi* with regard to the development knowledge resources through bridging information asymmetries in network-based informal labour market for the privately-owned Chinese SME manufacturing industry.

There are other future research opportunities. For example, future research can also study the potential tensions between the older and young generations in the guanxi relationship. The younger generation in China (young emperor generation) is defined as those born after the 1978 reform and the 1979 'one child' policy (Fong, 2006). They were born into a unique environment, being a single child in a family which is more rich and resourceful, due to the market economy and combined family support from both their parents and grandparents. As a result, this generation is more individualistic and independent, that may create conflict when they enter the Chinese business and working environment, which still emphasises authority, loyalty, paternalism and dependence. Secondly, future research can also study the development of knowledge resources through social networks from the perspective of learning and innovation, that is contrary to the focus of this thesis (which emphasises bridging the information asymmetries in a network-based labour market). Lastly, future research can also consider the role of institutional changes, which affect the guanxi in the labour market. As suggested in previous studies, the rapid change from a planning economy to a market economy in China has triggered a change in Chinese institutions to adopt the Western-like business style that emphasises contractual business and employment relationships (e.g. Nee, 1992; Boisot and Child, 1996; Nee and Matthews, 1996; Bateman and Tan, 1998; Tan, 2007). Future research can study how this institutional change may impact on the development of knowledge resources in the Chinese business area.

## **8.5 Chapter Summary**

This chapter provided a general summary and discussion of this research. I described how our research objectives focussed on exploring the patterns of developing knowledge resources through bridging information asymmetries in network-based informal labour market for privately-owned Chinese SME manufacturers, as well as their underlying

motivation. This thesis extends the discussion of Crouch (2005) to identify three gaps in the current research: (1) informal rules within social networks; (2) the employers' ability and strategy to acquire skilled workers through social networks; and (3) talented employees' use of social networks to enhance their employability. This was followed by a recapitulation of the methods employed in this research. To address my research questions, I used inductive/qualitative in-depth interviews to study the behaviour of privately-owned Chinese SME manufacturers in Guangdong province, China. All of my findings can be integrated into a consolidated framework for the patterns of developing knowledge resources through bridging information asymmetries in network-based informal labour market. My integrated framework shows how the actors take advantage of the dynamics of their social networks to get what they want in the labour market of the privately-owned Chinese SME manufacturing industry. I argued that the process related to bridge information asymmetries in network-based informal labour market are governed by informal rules, and that both the company and skilled workers attempt to use social capital and its associated *guanxi* specifications to develop their advantage. I also integrated the organizing framework of each chapter into a consolidated conceptual model to highlight the findings of this research.

I finally discussed the theoretical and managerial implications of my findings, as well as the limitations and future research opportunities. There are certain final theoretical and associated managerial implications of this research. The first implication of my research is that it provides a comprehensive view of the activities related to the development of knowledge resources through bridging information asymmetries in network-based informal labour market for privately-owned Chinese SME manufacturing sector. My findings not only highlight the importance of social networks in bridging information asymmetries for privately-owned Chinese SME manufacturers, but also provide a comprehensive picture of the activities taking place among the network actors. The second implication of this research

is the identification of informal rules governing the information transfer about skill availability and labour matching process in the social network environment of the privately-owned Chinese SME manufacturing sector. I use agency theory, the relationship hierarchy concept and the principle of reciprocity, in combination with the concept of social capital, clearly to identify seven informal rules (the anonymity, *huibao*, *lun*, *liyi*, *mianzi*, *renqing*, and integrated rules) to extend the current studies of *guanxi* dynamics that identify these collective actions among the network actors to enforcing informal pressure on the network actors. The third implication concerns the recruitment practices in the privately-owned Chinese SME manufacturing sector. I found that firms can use their social networks to reach and access more job candidates (the structural dimension of social capital), attract skilled workers from similar backgrounds (the cogitative dimension of social capital), and acquire key skilled workers using relational trust (the relational dimension of social capital). These findings extend the current researches on the recruitment strategies of Chinese employers. The fourth implication is related to job referrals. I found that the different dimensions of social capital and their associated *guanxi* specifications play different roles in the job referral activities in the Chinese informal (though social networks) labour market. The final implication of this research is to connect further social capital and *guanxi*. My findings suggest that connections do exist between these two concepts.

Although this study has made several important contributions to the literature, it is important to consider its limitations. Firstly, the generalizability of the findings is limited by the small number of firms and interviewees involved in this research. Future research can apply the same research method to other industries, compare their responses and also perhaps identify the differences between the various industry practices to enhance the generalizability. The second limitation is the quality of the data due to the fact that all of the interview data were gathered by note taking. Future research can improve this by gaining greater access to

firms and obtaining permission to record the interviews. The third limitation is related to the choice of research method. The qualitative research method is good for building theory; however, it does not allow the research to test the strength of the relationships among the variables. Future research can conduct a large-scale survey to examine the model proposed in this research. The final limitation concerns the research design, especially the number of firms involved and the plan for the interview questions. It did not provide me with enough information to differentiate between the firms and individuals. Future researchers should conduct large-scale quantitative research in order to investigate this matter further, as well as provide more encouragement to the interviewees to give counter examples.

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## Appendix 1: Sample Interview Questions\*

<b>Type A Questions: Structured Questions</b>
<p><b>General Research Question 1: Do informal rules exist within the social network and do the actors engage in collective action (or pressure) to ensure that these rules are followed?</b></p> <ul style="list-style-type: none"><li>• What are the informal rules and conditions of which you are aware? Who devised these rules?</li><li>• If someone does not follow these rules, what is the penalty? How are these rules enforced, and by whom?</li><li>• Can anyone change these rules? What is the process for changing these rules?</li></ul>
<p><b>General Research Question 2: What is the organization's strategy for acquiring skills from social networks?</b></p> <ul style="list-style-type: none"><li>• How do you or your company acquire new knowledge through social networks? What is the process?</li><li>• How do you know that someone has the skills that your company needs? How do you convince them to share their skills with you and under which conditions?</li><li>• Does your boss ever ask you to use your network to acquire skills for the company? Has someone from another company ever asked you to share necessary knowledge on subjects? How did you deal with this request?</li></ul>
<p><b>General Research Question 3: How do Chinese SME employees use social networks to enhance their employability?</b></p> <ul style="list-style-type: none"><li>• Do you ever apply for jobs through your social networks? What are your experiences of getting a job in this way?</li><li>• Whom do you contact to discuss changes to your employment? How?</li><li>• Have you ever helped someone to find a job and under which conditions?</li></ul>
<b>Type B Questions: Un-Structured Questions</b>
<ul style="list-style-type: none"><li>• Ask informants to expand on their initial statement according to the example offered.</li><li>• Ask informants to reflect on their own views about their examples.</li><li>• Ask informants to give a new example that contrasts with their original examples.</li><li>• Ask informants to comment on a particular event that happened in the past.</li><li>• Ask informants to comment on other candidates' claims and examples.</li></ul>

\* The exact wording of the interview questions may be varied from time to time.

## Appendix 2: Informants

No	Factory	Type of Factory	Gender	Age	Position	Education
1	1	Die-casting Molding/Tooling	Male	52	Owner	Apprenticeship
2	1	Die-casting Molding/Tooling	Male	57	Engineer	Apprenticeship
3	1	Die-casting Molding/Tooling	Male	34	Engineer	University
4	1	Die-casting Molding/Tooling	Male	29	Engineer	University
5	1	Die-casting Molding/Tooling	Male	32	Engineer	University
6	2	Die-casting Molding/Tooling	Male	53	Owner	Apprenticeship
7	2	Die-casting Molding/Tooling	Male	28	Engineer	University
8	2	Die-casting Molding/Tooling	Male	34	Engineer	University
9	2	Die-casting Molding/Tooling	Male	25	Engineer	University
10	3	Die-casting Molding/Tooling	Male	53	Owner	High School
11	3	Die-casting Molding/Tooling	Male	26	Engineer	University
12	3	Die-casting Molding/Tooling	Male	32	Engineer	University
13	3	Die-casting Molding/Tooling	Male	30	Engineer	Technical Institution
14	3	Die-casting Molding/Tooling	Male	26	Engineer	University
15	3	Die-casting Molding/Tooling	Female	25	Engineer	Technical Institution
16	3	Die-casting Molding/Tooling	Male	34	Engineer	University
17	4	Die-casting Part Machinery	Male	46	Owner	Technical Institution
18	4	Die-casting Part Machinery	Male	27	Engineer	University
19	4	Die-casting Part Machinery	Male	33	Engineer	University
20	4	Die-casting Part Machinery	Female	30	Engineer	University
21	4	Die-casting Part Machinery	Female	28	Engineer	Technical Institution
22	4	Die-casting Part Machinery	Male	40	Engineer	University
23	4	Die-casting Part Machinery	Male	27	Engineer	University
24	4	Die-casting Part Machinery	Male	33	Engineer	University
25	4	Die-casting Part Machinery	Male	28	Engineer	University
26	5	Die-casting Part Machinery	Male	51	Owner	Junior High School
27	5	Die-casting Part Machinery	Male	28	Engineer	University
28	5	Die-casting Part Machinery	Male	31	Engineer	University
29	5	Die-casting Part Machinery	Male	25	Engineer	University
30	5	Die-casting Part Machinery	Male	34	Engineer	University
31	6	Die-casting Part Machinery	Male	58	Owner	Apprenticeship
32	6	Die-casting Part Machinery	Male	30	Engineer	University
33	6	Die-casting Part Machinery	Male	31	Engineer	University
34	6	Die-casting Part Machinery	Female	24	Engineer	University
35	6	Die-casting Part Machinery	Male	27	Engineer	Technical Institution
36	6	Die-casting Part Machinery	Male	28	Engineer	University
37	6	Die-casting Part Machinery	Male	27	Engineer	University
38	7	Die-casting Part Machinery	Male	60	Owner	Private School
39	7	Die-casting Part Machinery	Male	40	Engineer	University
40	7	Die-casting Part Machinery	Male	31	Engineer	University
41	7	Die-casting Part Machinery	Male	39	Engineer	University
42	7	Die-casting Part Machinery	Male	52	Engineer	Technical Institution
43	7	Die-casting Part Machinery	Female	26	Engineer	University
44	7	Die-casting Part Machinery	Female	33	Engineer	University
45	8	Die-casting Part Subcontractor	Male	54	Owner	Apprenticeship
46	8	Die-casting Part Subcontractor	Male	35	Engineer	University
47	8	Die-casting Part Subcontractor	Male	36	Engineer	University
48	8	Die-casting Part Subcontractor	Male	24	Engineer	University
49	9	Die-casting Part Subcontractor	Male	48	Owner	University
50	9	Die-casting Part Subcontractor	Male	52	Engineer	Apprenticeship
51	9	Die-casting Part Subcontractor	Male	24	Engineer	University
52	9	Die-casting Part Subcontractor	Male	35	Engineer	University
53	9	Die-casting Part Subcontractor	Male	30	Engineer	University
54	9	Die-casting Part Subcontractor	Male	38	Engineer	University

55	9	Die-casting Part Subcontractor	Female	24	Engineer	University
56	9	Die-casting Part Subcontractor	Male	23	Engineer	Technical Institution
57	9	Die-casting Part Subcontractor	Male	24	Engineer	University
58	10	Die-casting Part Subcontractor	Male	59	Owner	Private School
59	10	Die-casting Part Subcontractor	Male	28	Engineer	University
60	10	Die-casting Part Subcontractor	Male	32	Engineer	University
61	10	Die-casting Part Subcontractor	Male	44	Engineer	Technical Institution
62	10	Die-casting Part Subcontractor	Female	25	Engineer	University
63	10	Die-casting Part Subcontractor	Male	31	Engineer	University
64	10	Die-casting Part Subcontractor	Female	24	Engineer	University
65	10	Die-casting Part Subcontractor	Male	54	Engineer	Apprenticeship
66	10	Die-casting Part Subcontractor	Male	36	Engineer	University
67	10	Die-casting Part Subcontractor	Male	48	Engineer	University
68	11	Die-casting Part Subcontractor	Male	62	Owner	Private School
69	11	Die-casting Part Subcontractor	Female	30	Engineer	University
70	11	Die-casting Part Subcontractor	Male	24	Engineer	University
71	11	Die-casting Part Subcontractor	Male	35	Engineer	University
72	11	Die-casting Part Subcontractor	Male	32	Engineer	University
73	11	Die-casting Part Subcontractor	Male	56	Engineer	Technical Institution
74	11	Die-casting Part Subcontractor	Male	23	Engineer	University
75	11	Die-casting Part Subcontractor	Male	30	Engineer	University
76	11	Die-casting Part Subcontractor	Male	45	Engineer	University
77	11	Die-casting Part Subcontractor	Male	30	Engineer	University
78	11	Die-casting Part Subcontractor	Female	28	Engineer	University
79	11	Die-casting Part Subcontractor	Male	30	Engineer	University
80	12	Surface Treatment	Male	56	Owner	Apprenticeship
81	12	Surface Treatment	Male	34	Engineer	University
82	12	Surface Treatment	Male	31	Engineer	University
83	12	Surface Treatment	Male	25	Engineer	Technical Institution
84	13	Surface Treatment	Male	46	Owner	Technical Institution
85	13	Surface Treatment	Male	27	Engineer	University
86	13	Surface Treatment	Male	36	Engineer	University