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The State-Owned Enterprise as an Identity: The Influence of Institutional Logics on *Guanxi* Behavior

Xi Chen

University of Nottingham - Ningbo China

ABSTRACT Previous research has debated whether *guanxi* persists or declines with the development of formal institutions. This study addresses this debate by investigating how the development of formal institutions in China's state-owned organizations influences employees' *guanxi* behavior. Building on institutional logics theory, I propose that *guanxi* behavior is a reaction to the socialist institutions adopted by state-owned enterprises (SOEs) and is associated with the collective identity of SOEs. Thus, employees' identification with SOEs is the mechanism that influences their *guanxi* behavior. A survey of 721 employees from 12 organizations compared *guanxi* behavior across three types of organizations with different degrees of state ownership: SOEs, public firms, and joint ventures. The results showed that the employees of joint ventures identify less with SOEs and engage in less *guanxi* behaviors than do SOE employees. The employees of public firms still identify with SOEs, and their *guanxi* behavior did not differ from that of SOE employees. Identification with SOEs mediated the effect of organizational type on *guanxi* behavior, whereas formalization did not. Therefore, the development of formal institutions does not necessarily decrease *guanxi* behavior, and its effect depends on whether the collective identity underlying *guanxi* is changed. This study has important implications for *guanxi* research, institutional logics theory, and transition economies.

KEYWORDS collective identity, *guanxi*, institutional logics, institutions, SOE

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INTRODUCTION

There is an ongoing debate about whether informal institutions, such as the particularistic interpersonal relationship called *guanxi*, become more or less important as formal institutions are established (Guthrie, 1998; Horak & Restel, 2016). This debate focuses on China's transition from a planned to a market economy over the last four decades, during which the state's role in coordinating economic

Corresponding author: Xi Chen (xi.chen2@nottingham.edu.cn)

activities declined, and formal and legal institutions were developed (Guthrie, 1997; Nee, 1992; Walder, 1992). *Guanxi* is a set of interpersonal connections that facilitate exchange of favors between people (Bian, 1997). The cultural view suggests that *guanxi* persists in Chinese society no matter how the institutional environment changes because its roots reside in the Confucian culture (Yang, 1994). Consistent with this argument, previous research has found that the effect of *guanxi* on entry-level wages in the Chinese labor market persisted after the reform (Bian & Huang, 2015a), and the role of *guanxi* in finding jobs increased after the reform (Bian, 1997, 2002; Bian & Huang, 2015b), especially in the state sector (Tian & Lin, 2016). However, the institutional view argues that the importance of *guanxi* has declined in China as the development of rational and legal system has resolved the institutional uncertainty that fosters *guanxi* behavior (Guthrie, 1998). A meta-analysis study supports this argument by showing that, although *guanxi* with business partners remains important for organizations, the importance of *guanxi* with the government has declined over time (Luo, Huang, & Wang, 2013).

Previous research has focused on the development of formal institutions in the market, which has influenced *guanxi* behavior outside of organizations. However, few studies have investigated how the development of formal institutions influences *guanxi* behavior within organizations (Lin, 2011a). Walder (1983) suggests that the underdevelopment of formal institutions in socialist enterprises stimulates employees to cultivate personal relationships with their supervisors. How does the supervisor-subordinate *guanxi* evolve with the development of formal institutions in state-owned enterprises? In this article, I investigate how socialist institutions influence supervisor-subordinate *guanxi* as these institutions have been gradually abolished during the privatization reform in China.

Building on institutional logics theory (Thornton, Ocasio, & Lounsbury, 2012), this article suggests that supervisor-subordinate *guanxi* has become an institutionalized practice of SOEs, which results in the collective identity of employees. To the degree that this identity is abolished, employees' *guanxi* behavior will decline, as well. Utilizing a unique sample in the reform context of China, I study employees' *guanxi* behavior in three types of organizations having different degrees of state ownership – SOEs, public firms, and joint ventures. Joint ventures construct a collective identity that embodies the market capitalism logic among employees who display less *guanxi* behavior than do SOE employees. In contrast, because public firms do not dissociate from the SOE identity, their employees did not differ from SOE employees in *guanxi* behavior. This study shows that the agency of organizations in managing their collective identity has implications for employee behavior and is constrained by their ownership structure.

This study makes important contributions to the research of *guanxi*. First, it explores how the institutions adopted by organizations influence *guanxi* behavior within those organizations. Previous theorists have debated the influence of newly established formal institutions on informal institutions such as *guanxi*

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(Guthrie, 1998; Horak & Restel, 2016; Yang, 1994). Institutional theory argues that the development of rational and legal institutions will reduce organizations' *guanxi* practices (Guthrie, 1998), whereas the cultural perspective suggests that individuals' use of *guanxi* will persist (Yang, 1994). Related empirical research has examined *guanxi* behavior *between* organizations, such as developing ties with business partners and the government (Luo et al., 2013); or individual *guanxi* behavior *outside* organizations, such as finding jobs through *guanxi* (Bian, 1997). In contrast, little is known about employees' *guanxi* behavior *within* organizations. The cultural perspective would suggest that organizations adopting different institutions in China will exhibit similar *guanxi* behavior among their employees. In contrast, the institutional theory would predict declining *guanxi* behavior with the establishment of formal institutions in organizations. Thus, this study will examine these predictions on intra-organizational *guanxi*.

Furthermore, this study investigates the mechanism of how the institutions of organizations may influence employees' *guanxi* behavior. Besides the mechanism of formal institutions replacing informal institutions, suggested by the previous research (Horak & Restel, 2016), I suggest that the institutional logics dominant in organizations influence individual *guanxi* behavior through constructing a collective identity for individuals. This mechanism contributes to resolving the debate about how institutional transition influences the importance of *guanxi* in China. This study suggests that whether *guanxi* persists or declines depends on whether the collective identity underlying *guanxi* behavior is changed. If the identity is not changed, *guanxi* behavior will persist, despite the establishment of formal institutions.

Finally, this study explores the antecedents of *guanxi* behavior within organizations, which has widespread impact on organizational outcomes. In traditional Chinese organizations, such as SOEs, *guanxi* with one's supervisor is a typical motivator for employee commitment and organizational citizenship behavior (Hui, Lee, & Rousseau, 2004). Although good *guanxi* benefits some employees, its use can engender negative effects for workplace justice and the ethical climate (Chen & Chen, 2009; Chen, Friedman, Yu, Fang, & Lu, 2009; Han & Altman, 2009). Previous research on the antecedents of employees' *guanxi* behavior has focused on two levels – the cultural level and the individual level. At the cultural level, Lin (2011a) finds that since Taiwan preserves more of its Confucian culture, it tends to put more emphasis on *guanxi* than mainland China does. At the individual level, previous research on the antecedents of supervisor-employee *guanxi* has investigated individual factors – such as motivation (Zhang, Deng, Zhang, & Hu, 2016), personality (Zhai, Lindorff, & Cooper, 2013), skills (Wei, Liu, Chen, & Wu, 2010), and values (Taormina & Gao, 2010) – as predictors of their *guanxi* behavior. However, previous research has seldom examined organizational factors that influence employees' *guanxi* behavior. This article fills that gap and investigates how organizations can change employees' *guanxi* behavior.

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THEORETICAL BACKGROUND AND HYPOTHESES

Institutions and *Guanxi* Behavior

The institutional perspective suggests that *guanxi* behavior is an important reaction to the pre-reform institutions in China (Guthrie, 1998). Since formal institutions in China, including procedures and laws for allocating economic resources, are underdeveloped, managers and organizations resort to informal institutions, such as *guanxi*, to coordinate economic activities and secure resources (Peng, 2003; Xin & Pearce, 1996). This perspective also applies to the situation of SOEs, which are managed by a centralized hierarchy based on personal and positional power (Lin & Germain, 2003). Although the allocation of wages follows a formal standard, and wages are allocated equally among workers (Giacobbe-Miller, Miller, & Zhang, 1997), the distribution of other benefits is subject to managers' subjective decisions. Managers have power not only over the allocation of a wide range of rewards – including bonuses, promotions, admission to the Party, job assignments, housing, ration coupons for scarce goods, personal leaves – but also over a series of punishments. The subjectivity and flexibility in the reward system motivate employees to access these benefits by cultivating personal relationship with their supervisors – i.e., engaging in *guanxi* behavior (Walder, 1983).

Based on institutional logics theory, I suggest that the need to build *guanxi* is not only due to the low formalization of SOEs, but also is deeply related to the state socialism logic underlying SOEs. Friedland and Alford (1991) define institutional logics as supraorganizational patterns of activities rooted in material practices and symbolic systems by which individuals and organizations produce and reproduce their material lives and render their experiences meaningful. According to institutional logics theory, institutions contain not only material practices, but also symbolic systems that imbue material practices with beliefs and meaning (Friedland & Alford, 1991; Scott, 2001). China's institutional transition has involved a shift from state socialism logic to market capitalism logic (Greve & Zhang, 2017; Guthrie, 2008). These two forms of logic not only specify different formal procedures and practices, but also contain different identities and schemas for individual actions. State socialism logic relies on state planning to allocate resources, with the state controlling product prices, organizational budgets, and manager appointments (Naughton, 1996). In the state distribution system, SOEs have historically faced soft budget constraints and access to government loans and purchases (Bai & Wang, 1998; Walder, 1984). Under the state's protection, managers have not felt strong pressure to reward individual performance. Instead, the culture of SOEs has emphasized group solidarity and interpersonal harmony (Burawoy & Lukacs, 1985), and the relationship between managers and employees has emphasized communal sharing (Chen, 2018). Under such an institutional logic, good *guanxi* with supervisors has become the basis of subordinates' trust in their supervisors (Farh, Tsui, Xin, & Cheng, 1998; Wong, Ngo, & Wong, 2003) and has enabled them to engage in an open-minded dialogue

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(Davidson, Van Dyne, & Lin, 2017). Supervisors' relationship with their subordinates has, indeed, influenced their allocation decisions, and employees' *guanxi* behavior has influenced allocation outcomes, including bonuses, promotions, and challenging jobs (Chen & Tjosvold, 2007; Law, Wong, Wang, & Wang, 2000). Therefore, building *guanxi* with their supervisor became an important way for employees to achieve their career development in SOEs (Wei et al., 2010).

In contrast, the market capitalism logic that was established during China's transition leads organizations to adopt a series of different institutions to manage their employees. The institutional logic of capitalism is the capitalization of human activities based on the prices generated from competition among private owners, and it emphasizes efficiency and compensates individuals for the value they create (Friedland & Alford, 1991). Following this logic, some SOEs have been partially privatized through public listing on the stock exchanges or through joint ventures with multinational companies (Walder, 1995). The privatized companies enjoy fewer privileges than SOEs, facing tighter budget constraints and stronger market pressure (Zahra, Ireland, Gutierrez, & Hitt, 2000). In addition, the reduction in state ownership emancipates privatized companies from the political constraints of government and allows them to adopt institutions that enhance their competitiveness and productivity, such as pay for performance (O'Connor, Deng, & Luo, 2006). Compared to SOEs, privatized companies adopt more strategic human resource management practices (Ngo, Lau, & Foley, 2008), which emphasize individual performance in the allocation of rewards and promotions (Giacobbe-Miller, Miller, Zhang, & Victorov, 2003; Zhao & Zhou, 2004). These universal personnel practices apply to all employees, regardless of their *guanxi* with supervisors (Pearce, Branyiczki, & Bigley, 2000).

The new institutions adopted by privatized organizations make *guanxi* behavior of employees less prevalent than in SOEs. As the institutional transition moves from a relationship-based, personalized exchange structure to a rule-based, impersonal transaction regime, the strategy of organizations shifts from being network-centered to market-centered (Peng, 2003). Accordingly, the importance and prevalence of managers' *guanxi* behavior declines (Gold, Guthrie, & Wank, 2002; Guthrie, 1998). The same logic applies to intra-organizational *guanxi* – i.e., supervisor-subordinate *guanxi*. With the development of formal institutions for labor recruitment, performance evaluation, and reward allocation in privatized companies, the flexibility and subjectivity of the incentive system that Walder (1983) refers to are reduced. As a result, employees do not need to resort to *guanxi* with supervisors to secure the outcomes that are important to them. Furthermore, the relationship between employees and their managers changes from a communal sharing model to a market pricing model, which emphasizes fair compensation for individual performance (Chen, 2018). As the interaction between managers and employees focuses more on individual performance and productivity, their personal *guanxi* does not address the main concern of their interaction. Accordingly, in international joint ventures, employees' trust in their supervisors is based less on their *guanxi* than it is in SOEs (Wong, 2018). Therefore, *guanxi* will become less prevalent in privatized companies compared to SOEs. I hypothesize:

Hypothesis 1: The employees of privatized companies will exhibit less guanxi *behavior than the employees of state-owned enterprises.*

SOE Identity and *Guanxi* Behavior

This article also argues that an important mechanism underlying the prevalent *guanxi* behavior in SOEs is the collective identity held by their employees. According to institutional logics theory, institutions influence organizational and individual behaviors through constructing and activating identities (Meyer & Hammerschmid, 2006; Rao, Monin, & Durand, 2003); focusing attention and formulating goals (Thornton, 2004); and providing schemas and scripts for symbolic interaction (Barley & Tolbert, 1997; Seo & Creed, 2002). Thus, different institutional logics construct different identities, goals, and behavioral scripts for organizations and individuals. One key mechanism by which institutions influence organizations and individuals is through constructing collective identities (Thornton et al., 2012). 'A collective identity is the cognitive, normative, and emotional connection experienced by members of a social group because of their perceived common status with other members of the social group' (Thornton & Ocasio, 2008). Collective identities usually emerge among populations of organizations that adopt a particular organizational form (Haveman & Rao, 1997). The collective identity embodies the institutional logic and becomes a target for the organization's members to identify with (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011).

In the context of a transition economy, SOE is an important organizational form that creates a collective identity among employees (Peng, Bruton, Stan, & Huang, 2016). Under the institutional logic of socialism, the power of the state in coordinating economic activities is an important reason that organizations tend to build *guanxi* with government. A review of previous research consistently shows that *guanxi* is more important in the state sector than in the non-state sector (Luo et al., 2013; Tian & Lin, 2016). Because SOEs rely more on government protection to access scarce resources, SOE managers develop more government ties (Li, Yao, Sue-Chan, & Xi, 2011). These ties play a more important role in the firm performance of SOEs than in that of non-SOEs (Luo et al., 2013). *Guanxi* with government authorities can even help SOE managers save their positions during downsizing (Ma, 2015). As a key component of the centralized socialism economy, SOEs are regarded as 'branch plants of a single giant firm' (Groves, Yongmiao, McMillan, & Naughton, 1994). When members of a group are bonded together in a coherent social unit, a stereotype about the group tends to form (Crawford, Sherman, & Hamilton, 2002; Rydell, Hugenberg, Ray, & Mackie, 2007). As a representation of state socialism logic, the stereotype of SOE is well accepted in transition economies: shortages and overemployment; workers who don't work hard; effort that is not rewarded; and workers who depend on managers for the allocation of benefits (Burawoy & Lukacs, 1985).

Since the identity of SOE has been deeply intertwined with *guanxi*, it directly shapes the behavior of individuals who hold that identity. Institutional theory suggests that practices are more likely to be institutionalized – they become instilled with value and taken-for-granted as normatively appropriate – if they are upheld by supra-organizational belief system that offers a positive interpretation of the practice (Zajac & Westphal, 2004). In the context of a state socialism economy, *guanxi* behavior has been closely intertwined with the state socialism logic that validates the communal relationship between supervisors and subordinates and becomes a taken-for-granted way of how people should behave in SOEs. Once a stereotype is formed, its persistence defies organizational reality (Burawoy & Lukacs, 1985). Even if the incentive system of SOEs changes, the stereotype of SOE remains deeply held and resistant to change (Greenwood & Hinings, 1996). Previous research has found that the reform in China has tightened SOEs' budget constraints and delegated more control to managers (Dong & Putterman, 2003). As result, SOEs are increasingly establishing formal rules and adopting market-driven labor practices, such as piece-rate wages (Groves et al., 1994; Keister, 2002). In addition, the development of the labor market has given workers bargaining power that may potentially alleviate the burden of engaging in *guanxi* behavior (Guthrie, 2002). Despite these changes in formal institutions, there is still inertia in people's conception of SOEs, and employees still perceive *guanxi* as an important behavior (Gu & Nolan, 2017; Wu, Chen, & Leung, 2011). When individuals identify as SOE employees, they will behave according to what they believe a typical SOE employee does – i.e., build *guanxi* with supervisors. I hypothesize that:

Hypothesis 2: Identification with SOEs will be positively related to employees' guanxi *behavior.*

Organizational Ownership and SOE Identity

Because of the strong association between *guanxi* and SOE identity, the extent to which this identity is changed with the introduction of market capitalism logic will have implications for employees' *guanxi* behavior. Institutional logics theory suggests that the complexity of institutional logics in which actors are embedded enables them to perform agency in choosing how to respond to different institutional logics (Thornton et al., 2012). Previous research suggests that identity work mediates the process of institutionalization (Lok, 2010) and is the mechanism underlying the way that organizations resolve institutional contradiction (Creed, DeJordy, & Lok, 2010). In the context of China, the introduction of

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market capitalism logic through the privatization process creates institutional contradiction, which needs to be resolved through identity work. Such identity work will have implications for employee *guanxi* behavior, which has been institutionalized as a practice of state socialism logic and associated with the identity of SOEs.

Furthermore, I argue that the form of identity work that organizations choose is constrained by their ownership structure. An important factor that influences how organizations react to institutional complexity is their ownership structure and corporate governance (Greenwood et al., 2011). The gradualistic reform in China has created different types of organizations, with varying ownership structures (Nee, 1992; Nee, Opper, & Wong, 2007). In this study, I focus on SOEs that were partially privatized via public listing on stock exchanges and joint ventures formed between state-owned parent companies and multinational companies, two of the primary ways to transfer property rights to private holders (Walder, 1995). Specifically, I suggest that the ownership structure of different types of organizations will influence how they respond to the competing state socialism and market capitalism logics in China.

Joint ventures' ownership structure and corporate governance allow them to construct a new identity that is more aligned with the market capitalism logic. A successful transition requires dissociation from old identities and construction of new identities (Biggart, 1977; Fiol, 2002). In order to construct a new identity, the power of the representative of new institutional logics is very important (Greenwood & Hinings, 1996; Tilcsik, 2010) because it enables actors to utilize the cultural resources inherent in new institutional logics to reconstruct and transform their identities (Friedland & Alford, 1991). Multinational companies, which represent the market capitalism logic of developed countries, have advanced technology, management experience, and abundant capital (Guthrie, 2005). Because of their advantages, they usually play a dominant role in the establishment of joint ventures and control half of the shares of such ventures (Clark & Geppert, 2006; Guthrie, 1999). Their dominant position helps joint ventures construct a distinctive identity – 'joint venture' – as a target for individual identification (Jane & Oded, 2001). Although state-owned parent companies are also shareholders of joint ventures, their influence in joint ventures weakens. As a result, the role of SOEs in employee identity will be weakened, as well. The collective identity of a joint venture can assimilate individual behaviors with the market capitalism logic, which emphasizes meritocracy and rewards for individual performance, regardless of employees' *guanxi* with supervisors. As employees of joint ventures adopt this new identity, they will dissociate from the behavioral pattern of SOEs. Therefore, I hypothesize that the difference in *guanxi* behavior between joint ventures and SOEs will be mediated by the degree to which their employees identify with SOEs.

In contrast, due to the ownership structure and corporate governance of public firms, their employees may maintain SOE identity. After the establishment

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of stock markets in Shanghai and Shenzhen in 1990 and a series of regulations (National People's Congress, 2001; The Fifth Meeting of the Standing Committee of the Eighth National People's Congress, 1993), public listing on the stock market became an institutionalized approach for privatizing SOEs. However, this approach to privatization allows the state – as represented by the State-owned Assets Supervision and Administration Commission (SASAC) – to maintain the majority share and play a dominant role in public firms (Guthrie, Xiao, & Wang, 2009). Typically, public listing of an SOE allows the state to retain between 40% and 50% of the company's shares. Between 20% and 30% of the shares are designated for institutional shares, and the remaining approximately 30% are designated for public consumption as free-floating shares (Guthrie, 1999; Xu & Wang, 1999). The state's dominant ownership of and influence in public firms are stronger and less counterbalanced by alternative power than those in joint ventures. Therefore, it is harder for employees of public firms to develop distinctive identities and to dissociate from the SOE identity. Since the employees of public firms still identify with SOE, they may exhibit the related behavioral pattern – i.e., building *guanxi* with supervisors. Taken together, organizations' identity work in resolving institutional contradiction is constrained by their ownership structure: unlike joint ventures which can construct an identity coherent with market capitalism logic, public firms are more likely to maintain the SOE identity, and, hence, their employees' *guanxi* behavior will be similar to that of SOE employees. Therefore, I hypothesize that:

Hypothesis 3: SOE identification mediates the difference between privatized organizations and SOEs in terms of employee guanxi *behavior.*

In summary, this article compares employees' *guanxi* behavior between SOEs and privatized organizations, including public firms and joint ventures. I hypothesize that employees of privatized organizations will exhibit less *guanxi* behavior than will SOE employees, and such a difference is mediated by identification with the SOE. Since joint ventures construct a distinctive collective identity, their employees exhibit less *guanxi* behavior than do SOE employees. In contrast, because employees of public firms still identify with SOEs, their *guanxi* behavior does not differ from that of SOE employees. This study examines this identity mechanism after controlling for the impact of formal institutions, as suggested in the previous literature.

METHODS

Through a unique sample and research design, this study attempts to capture the institutional diversity in China by looking at the continuing evolution of the state sector, holding some key institutional variables constant while allowing others to vary. Looking at organizations under SASAC's supervision in one city

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holds the macro-level environment constant to a certain extent. Due to the gradualistic nature of the reform, some SOEs are not privatized and still persist in the post-reform Chinese economy (Lin, 2011b). Under the same institutional context, this study compares individual behavior in firms that are (1) still state-owned, (2) publicly-listed, and (3) joint ventures. These three types of organizations have different degrees of state ownership and control – highest in SOEs and lowest in joint ventures.

Sample and Procedure

I acquired access to the field through a consulting project for Shanghai SASAC. First, I randomly selected 12 of the 40 business groups in which to conduct interviews with top managers. Among the 12 business groups, four agreed to participate in the survey study. These business groups covered multiple industries: food, commercial, chemical, and automobile. For each business group, I included different organizational types, resulting in four SOEs, three public firms, and five joint ventures. The proportion of state ownership of SOEs were all above 0.90. The proportion of state ownership for public firms varied between 0.39 and 0.57. The five joint ventures were all formed between SOEs and foreign companies, and their proportion of state ownership varied from 0.30 to 0.70, with the majority at 0.50. The sample design is presented in Figure 1.

Between 50 and 100 respondents from each firm (800 in total) were selected; of these, 721 submitted the survey, resulting in a response rate of 90%. The sample was evenly distributed among the three types of organizations: 282 from traditional SOEs, 230 from public firms, and 209 from joint ventures. In order to form a stratified random sample of each firm and to ensure comparability between firms, I requested a universal composition of employees at different hierarchical levels among all the firms. I calculated the number of employees at each hierarchical level to be chosen for each firm. The firms randomly selected respondents at each hierarchical level from the directory of employees. The survey was conducted anonymously at the companies. The researchers explained to the participants that the purpose of the study was scientific research and that their responses would not be disclosed to their managers.

Measures

In order to explore what identities individuals actually held, I included an open question at the beginning of the survey: 'Imagine you are attending a party of old classmates. How would you introduce yourself'? This question was adapted from the Twenty Statements Test, which asks respondents to write 20 answers to the question 'Who am I'? on a situation that is familiar to Chinese respondents (Rees & Nicholson, 1994).

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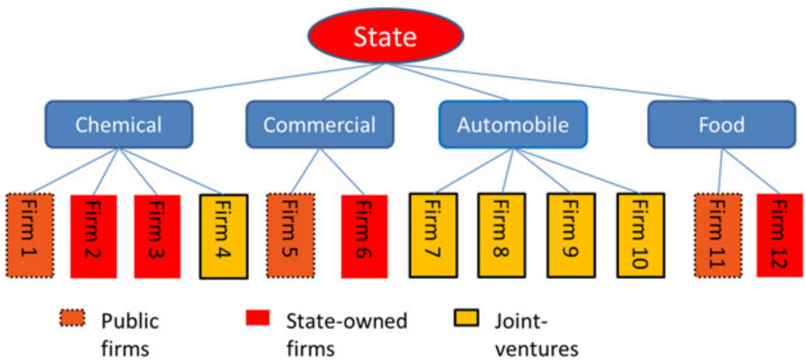

Figure 1. The sample structure

Independent variables. *Public* and *joint venture* were dummy variables to represent different types of organizational ownership. The dummy variable SOE was used as the benchmark for comparison.

Dependent variable. *Guanxi behavior* was measured by six items widely used in previous research (Law et al., 2000). Respondents were required to indicate the extent to which they agree with these statements on a five-point scale, such as 'During holidays or after office hours, I would call my supervisor or visit him/her'. (1 = 'strongly disagree', 5 = 'strongly agree')

Mediating variables. In order to measure the extent to which participants incorporate the collective identity of SOEs into their identities, I measured *SOE identification* by adapting the target in Mael and Ashforth's (1992) organizational identification scale to 'SOE'. An example item is: 'Working at an SOE is important to the way that I think of myself as a person'. Respondents answered the five items using a five-point scale (1 = 'strongly disagree', 5 = 'strongly agree').

Control variables. Demographic variables such as *gender* and *education* were included because these factors may influence individuals' chances for career advancement and their probability of engaging in *guanxi* behavior (Walder, Li, & Treiman, 2000; Wei et al., 2010). Hierarchical *position* was also included because it may affect the importance of political factors in promotion (Li & Walder, 2001), such as *guanxi* behavior. Since organizational *tenure* may influence individuals' chances of promotion (Zhao & Zhou, 2004), it was also included.

This study also controlled for alternative explanations of *guanxi* behavior. First, the *formalization* of organizational procedures may reduce the need to engage in *guanxi* behavior (Walder, 1983), so it was included and measured by five items from a previous study (Pugh, Hickson, Hinings, & Turner, 1968). An example item is: 'The organization keeps a written record of nearly everyone's job performance'. In order to rule out the impact of management style on *guanxi*

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behavior, I controlled for *hierarchy* of organizational structure because Walder (1983) suggested that the power of managers is an important driver of employee *guanxi* behavior. *Hierarchy* was measured by four items from a previous scale (Pugh et al., 1968), such as 'There can be little action here until a supervisor approves a decision'. Respondents used a five-point scale (1 = 'not at all', 5 = 'very closely') to indicate the extent to which these statements described the situation in their organizations.

Instrumental variables. In order to address the endogeneity concern – those who engage in *guanxi* behavior are more likely to join SOEs than public firms and joint ventures – I used instrumental variables that are related to the independent variables. I chose pride in their organization and self-esteem as instruments for public firms and joint ventures. Because they generally have higher firm value than SOEs (Wei & Varela, 2003), their employees should have higher pride and self-esteem. Furthermore, pride in one's organization and self-esteem are not theoretically related to *guanxi* behavior because this behavior has both positive and negative connotations (Han & Altman, 2009). Therefore, they qualify as instrumental variables in this study. I measured pride with an existing scale containing five items, such as 'My company is one of the best companies in its field' (Blader & Tyler, 2009) ($\alpha = 0.85$), and measured self-esteem with the Rosenberg self-esteem scale (1965) (e.g., 'I feel that I have a number of good qualities'; $\alpha = 0.84$).

RESULTS

In order to explore the salience of different categories and groups in individual identities, I summarized the frequency of mentioning 'SOE', 'public firm', 'joint venture', and firm names in respondents' self-introduction to the open question in Figure 2. To analyze whether employees from different types of organizations used each category differently, I conducted a multinomial logistic regression. Employees working at SOEs ($b = 1.86$, s.e. = 0.76, W (1) = 5.94, $p = 0.015$, Odds = 6.41) and public firms ($b = 1.85$, s.e. = 0.77, W (1) = 5.74, $p = 0.017$, Odds = 6.34) were more likely to use the term 'SOE' in their self-introduction than were employees working for joint ventures (χ^2 (2) = 9.93, $p = 0.007$). These results indicate that the public firms' employees still identified with SOEs. Furthermore, public firm employees' usage of 'public firm' was lower than joint venture employees' usage of 'joint venture' ($b = -1.78$, s.e. = 0.72, W (1) = 6.04, $p = 0.014$, Odds = 0.17), showing that joint ventures are better than public firms at establishing a distinctive identity. In addition, the frequency of mentioning firm names in self-introduction was not significantly different across the three kinds of organizations (χ^2 (2) = 0.67, $p = 0.72$), indicating that identity difference focused on the collective organizational form, rather than on the specific organizations.

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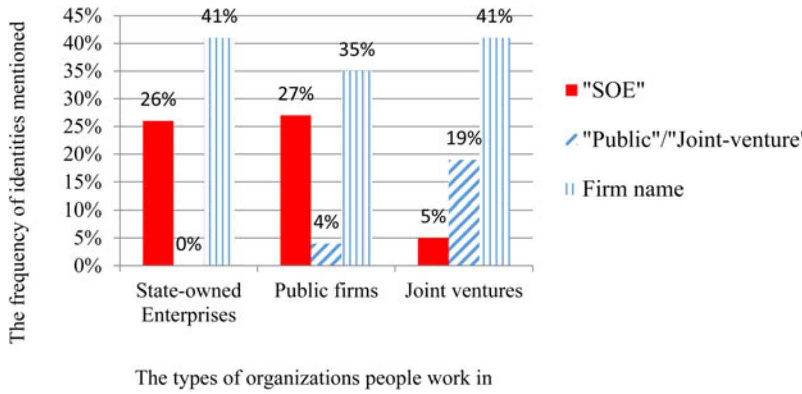

Figure 2. The frequency of mentioning different identities in self-introduction by employees working in different types of organizations

I further conducted confirmatory factor analysis to examine the measurement validity. The measurement model, which included formalization, hierarchy, SOE identification, and *guanxi* behavior as factors, fit very well with the data ($\chi 2$ (145) = 432.50, p = 0.000, CFI = 0.93, TLI = 0.92, RMSEA = 0.05, PCLOSE = 0.21, SRMR = 0.05). The factor loadings of variables are presented in Table 1. In order to examine whether common method bias was driving the relationship between variables, I conducted the single-factor test with confirmatory factor analysis (Podsakoff, MacKenzie, Jeong-Yeon, & Podsakoff, 2003). The model that loaded all the items onto one factor did not fit the data ($\chi 2$ (152) = 2593.70, p = 0.000, CFI = 0.40, TLI = 0.33, RMSEA = 0.15, PCLOSE < 0.001, SRMR = 0.13). Therefore, the common method cannot explain the relationship between variables. The descriptive analysis results are presented in Table 2.

Given the nested nature of the data, I used HLM7 to test the hypotheses (Hox, 2010). I constructed a three-level model to control for firm-level and industry-level variances. Because public firm and joint venture were binary variables, I used the two-stage residual inclusion method to address the endogeneity issue (Terza, Basu, & Rathouz, 2008). Specifically, I performed a logistic regression of public firm and joint venture on the instrumental variables – pride and self-esteem – and all the other variables. As expected, public firm employees were prouder of their organizations than SOE employees were (b = 0.87, s.e. = 0.20, p = 0.000); and joint venture employees had higher self-esteem than SOE employees (b = 0.99, s.e. = 0.25, p = 0.000). The residuals from these logistic regression models were included in the hierarchical linear models. The results on *guanxi* behaviors are presented in Table 3. The residuals did not have a significant effect on *guanxi* behavior, indicating that the selection of individuals to different types of organizations was not a serious issue. In Model 1 of Table 3, females and employees with longer tenure engaged in less *guanxi* behavior. Employees with a higher education level or position engaged in more *guanxi* behavior. Compared to SOEs, public firms did not have a significant effect on *guanxi* behavior (Odds = -0.28), whereas joint ventures

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Table 1. Factor loadings of measured variables in confirmatory factor analysis

	Formalization	*Hierarchy*	*SOE identification*	Guanxi *behavior*
(1) Formalization variance	0.14			
The organization has a large number of written rules and policies.	0.63			
A 'rules and procedures' manual exists and is readily available within this organization.	0.66			
There is a complete written job description for most jobs in this organization.	0.75			
The organization keeps a written record of nearly everyone's job performance.	0.74			
There is a formal orientation program for most new members of the organization.	0.67			
(2) Hierarchy variance	0.08			
There can be little action here until a supervisor approves a decision.		0.31		
A person who wants to make his own decisions would be quickly discouraged.		0.47		
Even small matters have to be referred to someone higher up for a final answer.		0.83		
Any decision I make has to have my boss' approval.		0.66		
(3) SOE identification variance	0.47			
Working at SOE is important to the way that I think of myself as a person.			0.78	
When someone praises the accomplishments of SOE, it feels like a personal compliment to me.			0.88	
I feel that the problems of SOE are my own personal problems			0.42	
When someone from outside criticizes SOE, it feels like a personal insult.			0.53	
(4) *Guanxi* behavior variance	0.50			
During holidays or after office hours, I would call my supervisor or visit him/her.				0.69
My supervisor invites me to his/her home for lunch or dinner.				0.60
On special occasions such as my supervisor's birthday, I would definitely visit my supervisor and send him/her gifts.				0.57
I always actively share with my supervisor about my thoughts, problems, needs and feelings.				0.61
I care about and have a good understanding of my supervisor's family and work conditions.				0.66
When there are conflicting opinions, I will definitely stand on my supervisor's side.				0.57

had a significant negative effect on *guanxi* behavior (Odds = -1.1), partially supporting H1. These variables explained 13% of variance at the individual level, 22% of variance at the firm level, and 51% of variance at the industry (business group) level. The model fit was calculated according to the procedure of reduced variance

Table 2. Correlations and descriptive statistics [a]

	Mean	*SD*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
1. Public firm	0.32	0.47									
2. Joint venture	0.29	0.45	−0.44**								
3. SOE identification	3.47	0.66	0.03	−0.13**	0.74						
4. Formalization	4.01	0.57	−0.01	0.11**	0.31**	0.82					
5. Hierarchy	3.17	0.71	0.19**	−0.25**	0.06	−0.06	0.65				
6. *Guanxi* behavior	2.81	0.64	−0.06	0.00	0.28**	0.22**	0.03	0.80			
7. Female	0.39	0.49	0.09*	−0.14**	−0.06	−0.03	0.18**	−0.06			
8. Education	3.31	1.12	−0.18**	0.30**	−0.12**	0.03	−0.11**	0.14**	−0.01		
9. Position	1.96	1.00	−0.16**	0.22**	0.07	0.08	−0.21**	0.21**	−0.12*	0.36**	
10. Tenure	13.29	9.75	0.06	−0.09*	0.01	0.00	−0.03	−0.17**	−0.08	−0.32**	0.11*

Notes: [a] Entries on the diagonal are Cronbach's alphas. For position, 1 = Employee, 2 = Supervisor, 3 = Middle manager, 4 = Top manager. For education, 1 = Middle school, 2 = High school, 3 = College, 4 = Bachelor, 5 = Master or higher.
* $p < 0.05$ ** $p < 0.01$

Table 3. Hierarchical linear models of *Guanxi* behavior[a]

	Model 1			Model 2		
	b	*s.e.*	*p*	*b*	*s.e.*	*p*
Intercept	2.71***	0.19	0.00	1.29*	0.32	0.03
Public firm	−0.14	0.23	0.58	0.08	0.25	0.77
Joint venture	−0.55*	0.21	0.04	−0.42	0.28	0.19
Female	−0.13*	0.06	0.04	−0.10	0.07	0.15
Education	0.06†	0.04	0.10	0.09*	0.04	0.02
Position	0.16***	0.03	0.00	0.12***	0.03	0.00
Tenure	−0.01**	0.00	0.00	−0.01**	0.00	0.00
SOE identification				0.28***	0.05	0.00
Formalization				0.11†	0.06	0.05
Hierarchy				−0.05	0.07	0.43
Residual $_{\text{public firm}}$	−0.01	0.22	0.97	−0.21	0.26	0.42
Residual $_{\text{Joint venture}}$	0.39†	0.21	0.06	0.27	0.28	0.33

Random part	Var	p	Var	p
$\sigma^2_{\text{individual}}$	0.34***	0.00	0.30***	0.00
σ^2_{firm}	0.01**	0.01	0.00	0.11
$\sigma^2_{\text{industry}}$	0.00	0.16	0.00	0.11
$R^2_{\text{individual}}$	0.13		0.23	
R^2_{firm}	0.22		0.81	
R^2_{industry}	0.51		0.54	
Deviance	781.63		723.48	

Notes: [a] Entries are unstandardized regression coefficients. SOE was the reference category.
†p < 0.10, * p < 0.05, ** p < 0.01, *** p < 0.001

suggested by Hox (2010), so no significance test could be conducted. In Model 2 of Table 3, formalization had a marginally significant positive effect on *guanxi* behavior, and the effect of hierarchy was non-significant. SOE identification had a significant positive effect on *guanxi* behavior, supporting H2. These variables explained an additional 10% of variance at individual level, 59% of variance at the firm level, and 3% of variance at the industry level. After SOE identification was included, the effect of joint ventures became non-significant, indicating the existence of a full mediation effect.

In order to test the mediating effect of SOE identification, I used the bootstrapping approach of the structural equation model, with a significant indirect effect representing the existence of the mediation effect (Kline, 2005). The data were analyzed in Mplus. The coefficients of the structural equation model are presented in **Table 4**. Joint ventures were more formalized and had a lower hierarchy than SOEs. Neither formalization nor hierarchy had a significant effect on *guanxi* behavior. Joint ventures had a negative effect on SOE identification, but the effect of public firms was non-significant. Through SOE identification, the indirect effect of joint ventures on *guanxi* behaviors was significant (indirect effect = -0.04,

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Table 4. The coefficients of structural equation model of mediation effects

Paths	*b*	*s.e.*	*t*	*p*
Public firm → formalization	0.10	0.07	1.46	0.15
Joint venture → formalization	0.16	0.06	2.62	0.01
Public firm → hierarchy	0.08	0.06	1.16	0.25
Joint venture → hierarchy	−0.26	0.07	−3.96	0.00
Public firm → SOE identification	−0.06	0.06	−1.01	0.31
Joint venture → SOE identification	−0.15	0.06	−2.48	0.01
Public firm → *Guanxi* behavior	−0.16	0.22	−0.75	0.45
Joint venture → *Guanxi* behavior	−0.67	0.26	−2.59	0.01
Formalization → *Guanxi* behavior	0.05	0.09	0.55	0.58
Hierarchy → *Guanxi* behavior	−0.05	0.11	−0.44	0.66
SOE identification→ *Guanxi* behavior	0.28	0.08	3.46	0.00

Note: the coefficients of control variables were not reported in the table.

s.e. = 0.02, t = -1.99, p = 0.046), but the indirect effect of public firms was not significant (indirect effect = -0.02, s.e. = 0.02, t = -0.91, p = 0.36). The indirect effect through formalization was non-significant for joint ventures (indirect effect = 0.01, s.e. = 0.02, t = 0.52, p = 0.60) or public firms (indirect effect = 0.01, s.e. = 0.01, t = 0.43, p = 0.67). Nor was the indirect effect through hierarchy significant for joint ventures (indirect effect = 0.01, s.e. = 0.03, t = 0.42, p = 0.68) or public firms (indirect effect = -0.00, s.e. = 0.01, t = -0.33, p = 0.74). These results support H3, which states that SOE identification mediates the effect of joint ventures on *guanxi* behavior.

DISCUSSION

This article aims to understand how the development of formal institutions in organizations influences intra-organizational *guanxi*. Building on institutional logics theory, I argue that the institutions that organizations adopt construct the collective identities of employees. These collective identities embody institutional logics and develop into a stereotype of how individuals behave in the collective. To the extent that individuals identify with the collective, they will behave according to its stereotype. In the setting of China's transition economy, the state socialism logic has generated the stereotype of prevalent *guanxi* among SOEs. This study finds that the more that individuals identify with SOE, the more *guanxi* behavior they engage in within their organizations. The way in which privatized organizations manage this collective identity is contingent on their ownership structure.

The formation of joint ventures leads to a significant deviation from the SOE identity. Employees of joint ventures identify less with SOEs and exhibit less *guanxi* behavior than SOE employees do. The construction of the new identity 'joint venture' transforms employees' mindset and helps them unlearn the behavioral script of the state socialism logic. An important reason for the radical deviation

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of joint ventures from the SOE identity is the presence of a counter-balancing power – multinational companies. Therefore, successful institutional transition requires counterbalancing power, which enables the construction of new identities and a change in behavior. Public firms, on the contrary, have not deviated from the SOE identity as joint ventures have. The continued influence of the state sustains individuals' identification with SOEs and constrains the extent to which public firms can freely construct a distinctive identity. Since employees of public firms still identify with SOEs, their *guanxi* behavior does not differ from that of SOE employees. Overall, this article suggests that in order to fully actualize the potential of organizational transformation, identity management must accompany ownership change.

It is noteworthy that these organizations do differ in organizational structure and procedures, as evidenced by the increased formalization and decreased hierarchy of joint ventures compared to SOEs. However, these structural elements have not reduced *guanxi* behavior significantly. On the contrary, formalization has had a positive association with *guanxi* behavior. This finding is consistent with previous research (Horak & Klein, 2016) showing that *guanxi* complements formal institutions in coordinating economic and social exchanges (Horak & Restel, 2016). The development of formal institutions resolves part, but not all, of the uncertainty regarding these exchanges, thus leaving room for informal institutions to play a role – a phenomenon that has been found across cultures (Bian & Ang, 1997; DiTomaso & Bian, 2018; Liu, Keller, & Hong, 2015). For instance, the formal procedure of performance measurement provides a common standard by which to evaluate individual performance, but it may require supervisor evaluation and still leave room for individuals to pursue competitive advantage through *guanxi*. Indeed, previous research has viewed *guanxi* behavior as a strategy to enhance one's career development (Wei et al., 2010), and people who engage in *guanxi* behavior tend to attribute their success to their own actions (Taormina & Gao, 2010). This study also finds that *guanxi* is used more by people with a greater chance of career advancement, such as employees with higher education and position (Walder et al., 2000; Zhao & Zhou, 2004), and less by those with less chance of career advancement, such as female and senior employees (Li & Walder, 2001; Wei et al., 2010). This finding suggests that the development of formal institutions may precipitate, rather than reduce the use of *guanxi* in organizations.

Theoretical Contributions and Practical Implications

This study makes important contributions to the research. First, it extends the explanation of employees' *guanxi* behavior to the organizational level. This article suggests that employees' *guanxi* behavior is a reaction to the socialist institutions adopted by SOEs. The more that individuals identify with SOE, the more they enact the behavioral scripts of state socialism logic and build *guanxi* with their supervisors. That is, *guanxi* behavior has been institutionalized as a strategy

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to develop one's career in SOEs, and employees deploy this strategy to different degrees in different types of organizations. This systematic difference between organizations within the same culture complements the previous explanations of *guanxi* behavior through national culture or individual differences. Therefore, this article highlights the institutional origin of *guanxi* behavior within organizations and contributes to a deeper understanding of this important organizational phenomenon.

This article also sheds new light on the debate about the persistence or decline of *guanxi* in transition economies, such as China's. There are various arguments addressing whether *guanxi* has persisted or declined with the reform in China. The cultural argument is that *guanxi* has persisted, notwithstanding the reform (Yang, 1994). The institutional argument is that *guanxi* has declined with the reform that establishes formal institutions in China (Guthrie, 1998). This article focuses on the micro level and suggests that the importance of intra-organization *guanxi* follows the prediction of institutional theory and is lower in transformed organizations than in SOEs. The institutions that individuals have long been embedded in become part of their identity and have direct implications for how they should behave. Therefore, the SOE identity has been the cognitive pillar of the state socialism institution (Scott, 2001), which happens to share the values inherent in the traditional culture of Chinese society (Farh, Hackett, & Liang, 2007). Cultural transformation is not easy to achieve because it requires a change in people's identity and mindset (Creed et al., 2010; Seo & Creed, 2002). Thus, this article resolves the debate by suggesting that *guanxi* persists if no identity change happens, and *guanxi* declines if identity change takes place. This insight can potentially be applied in explaining the persistence of *guanxi* behavior in Chinese culture – i.e., due to the deeply-held collective identity of the Chinese people and its *guanxi*-heavy stereotype.

In addition, this study makes an important contribution to the micro-mechanism of institutional transition. Previous research has recognized the importance of identity movement for institutional change (Rao et al., 2003; Thornton & Ocasio, 2008). However, empirical investigation of how organizations construct different identities, as well as their effect, has been lacking (Gioia, Patvardhan, Hamilton, & Corley, 2013). This study suggests that organizations' approach of identity management depends on their ownership structure and corporate governance. The dominance of multinational companies allows joint ventures to reconstruct their identity, so that their employees can identify with a different collective and dissociate from the SOE behavioral script. Public firms, on the contrary, maintain the SOE identity due to the continued influence of the state and, hence, are less effective in transforming the behavior of individuals. Lok (2010) suggests that actors can preserve an old favorable and autonomous identity, while fully adopting practices associated with the new logic. This study highlights the difficulty of doing so because of the deep coupling between the old identity and behavioral scripts.

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Beyond the theoretical contributions, this study also holds implications for management practices. The implication for general management is that organizations should be very cautious in choosing the categories to affiliate with, as the categories will become part of their members' identity, which further influences their behavior. For transition economies, this study uncovers the micro mechanism of why continued state dominance postpones reform progress. A special characteristic of China's reform is the continued influence of state (Lin, 2011b). Previous research has shown that *guanxi* is prevalent in the state sector and has even displayed an increasing trend (Tian & Lin, 2016). According to the findings of this study, the continued influence of the state maintains the SOE identity and its related behavioral pattern. In order to achieve the objective of institutional transition, an identity shift must accompany structural changes. Therefore, privatized organizations should reconstruct the identity of their employees to deviate from the SOE identity.

Limitations and Future Research Implications

Despite its contributions, this study has some limitations. This study used self-report to measure *guanxi* behavior because individuals are best informed of such private behaviors. I acknowledge that self-report may cause common method bias in testing the relationship between SOE identification and *guanxi* behavior, although the single-factor test has suggested otherwise. Controlling for other variables measured in the same way, such as formalization and hierarchy, helps mitigate this problem because control variables have already accounted for the variance caused by the method (Siemsen, Roth, & Oliveira, 2010). Nevertheless, future research should measure *guanxi* behavior through other sources (such as supervisor evaluation) or methods (such as experiment) to replicate the findings (Horak, 2018).

The absence of a pre-test of behavior before organizational change limits my capability to make causal predictions about the effect of institutional logics. The long-lasting reform process makes it difficult to track individual behaviors from the beginning of the reform, but previous studies demonstrate that the management practices of SOEs were homogeneous before the reform (Walder, 1983). Therefore, under the old institution, one can assume that *guanxi* behavior was similar among organizations before the reform. In addition, because the assignment of organizations to different ownership change is based primarily on strategic considerations such as firm size, reverse causality – the firms with less *guanxi* behavior among employees were selected for reform – is not a plausible explanation for the findings of this study. However, future research can adopt an experimental approach to examine the causal effect of institutional logics (Horak, 2018).

Finally, this study focused on privatization through public listing and building joint ventures, which are the prevalent approaches to transforming large SOEs in Shanghai. One neglected approach to privatization is the transfer of property rights to private holders. Previous research has found many similarities between

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private companies and foreign-controlled joint ventures in management practices and employee motivation (Chiu, 2002; Gong & Chang, 2008). Moreover, such radical privatization engenders stronger market pressure and deviation from the SOE identity. Therefore, the inclusion of wholly privatized companies would increase the variance of independent variables and provide a more lenient test of the hypotheses. Future research could follow individual behaviors in firms that become controlled by private owners and test the generalizability of this study's conclusions.

CONCLUSION

To summarize: focusing on the reform context, this study investigated the impact of different institutions adopted by organizations on individual *guanxi* behavior. The reform in China generates complexity on the institutional logics and associated formal institutions adopted by organizations. This study found that compared to SOE employees, joint venture employees showed less *guanxi* behavior, mainly through reduced identification with SOEs. Because employees of public firms maintained their SOE identity, their *guanxi* behavior did not show a significant difference from that of SOE workers. These results suggest that *guanxi* behavior has been deeply coupled with the state socialism logic of SOEs and highlight the challenges of institutional transition.

NOTE

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Xi Chen (xi.chen2@nottingham.edu.cn) is an assistant professor of Organizational Behavior and Human Resource Management at Nottingham University Business China. She received her PhD from Stern School of Management, NYU. Her research explores how the macro and micro phenomena interact and influence each other. On the one hand, she studies how organizations' ownership structure influences employees' identity and behaviors. On the other hand, she studies how individuals' motives, such as self-enhancement motive, influence organizational and entrepreneurial behaviors.

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