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## Employee referrals: A study of 'close ties' and career benefits in China

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## ABSTRACT

This study examines the relationship between employee referrals and employees' job tenure through the lens of social capital theory. It does so by considering the tie strength (closeness of guanxi) between referrers and referred employees in the Chinese context. In particular, we examine the mediating effect of career benefits. We theorize that close guanxi has a significant and positive impact on the job tenure of referred employees, and that career benefits (such as having a managerial role) mediate the close guanxi effect on job tenure. This highlights the critical need to recognize the tie strength as between referrers and referred employees. The support for our hypotheses comes from the use of personnel records of 4030 employees over 13 years in one large privately-owned manufacturer in China. Our study has theoretical and practical implications for the relational approach to tackling voluntary turnover in the workplace.

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## 1. Introduction

Family and friendship (kith and kin) networks have been used for advancement across the ages and continents. In the modern era, first after 1945 with the spread of labour markets, and later in the 1980s with financialization and free movement of labour (post-Soviet globalisation), such varied systems of privilege were increasingly questioned. Those in favour of the free market, neo-liberal school of management wanted more worker mobility and flexibility based on talent, skilled division of labour and scarcity. Those from the more traditional state-managed economies wanted more merit and less prejudice. Therefore, the actual operational use of this form of social capital in the sphere of recruitment and retention is quite important and is a central part of the labour mobility debate in China (Bian & Huang, 2015; Chen & Chen, 2009; Han & Han, 2009).

Guanxi, personal connections, refers to the state of being related through particular ties to others. Guanxi itself is both a workplace subset of the practical use of social capital and a uniquely Chinese cultural form that goes beyond the usual familial network (Han & Han, 2009; Lin, 2001). Although the practice of guanxi may be ancient, its importance in the workplace is still much discussed (for a review see Chen, Chen, & Huang, 2013). Guanxi has for a long time been widely used to attain an urban job in mainland China (Bian,

1997; Bian & Huang, 2015; Zhao, 2013). Our key concern is its impact on the increasingly burdensome problem of voluntary staff turnover (Hom & Xiao, 2011; Liu & Peng, 2007). Job switching has now reached a damagingly high level with an average staff voluntary turnover rate of 17% nationwide since 2011 (China Daily, 2015). The issues examined here, therefore, focus on the enduring nature of social 'ties', guanxi, as a rational labour market device for better recruitment through employee referral when compared with formal recruitment methods (e.g., newspapers, advertisements and agents).

The overarching nature of the concept of social capital was drawn from David Hume's (1777) concerns with the beneficial nature of co-operation based on socially constructed mutual trust and specifically aimed at avoiding the mutual destruction outlined by Thomas Hobbes (1651) in his views of the 'state of nature as a state of war' (Putnam, 2001). This in turn is rooted in inter-locking group dynamics governed by social norms. Here, social capital is used as the general theoretical basis for studies of 'close ties' before, during and after entry to the labour market and employment. However, both weak tie theory (Granovetter, 1973) and social resource theory (Lin, 1990) state strong ties (defined as emotionally intense and frequent such as those with friends and co-workers) tend to provide redundant information and to possess fewer useful resources for career attainment; instead, weak ties are more likely to offer unique information about job openings and to reach superior social resources for career success. Therefore, referred employees attain career benefits (such as higher wages) through a network of weak ties and stay in their job longer. To date, empirical

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research has provided mixed findings in this area with some studies confirming the existence of a higher starting wage among referred employees through the old-boys (girls) network (Brown, Setren, & Topa, 2012; Fernández, Castilla, & Moore, 2000; Simon & Warner, 1992), but other studies did not find a wage premium and there may even be an earnings' penalty among referred employees (Burks, Cowgill, Hoffman, & Houseman, 2015; Pellizzari, 2010). Nevertheless, employee referrals uniformly exhibited a longer tenure in all the above studies.

We propose that the effect of social capital pertinent to trust, loyalty and commitment is more likely to be found in strong rather than weak ties, and that the resignation behaviour of referred employees has been overlooked in this. Information flows more efficiently when the ties between job applicants and referrers are stronger (Han & Han, 2009). Even Granovetter (1974) stated that the merit of strong ties should not be underestimated. Social support allows new recruits to adjust better and settle in faster (Fang, Duffy, & Shaw, 2011). Referrers are more likely to provide advice on career development and support to those closely connected than those distantly related. In addition to a higher starting salary and promotion, there are other subjective career benefits (person–environment fit and career satisfaction) (Allen, Eby, Poteet, Lentz, & Lima, 2004; Seibert, Kraimer, & Liden, 2001). We revisit the tie strength framework and explore the mechanism by which close guanxi may lead to longer tenure of the referred employees.

This approach contributes in three ways. First, we distinguish the strength of ties between referrers and referred employees in the guanxi framework, and its direct influence through guanxi norms on the length of job tenure. Second, we explicitly explore the mediating effect of career benefits (career advancement) of stronger ties, close guanxi, on prolonged job tenure in order to further explore the influence of social capital, as opposed to the benefits of weak ties (Granovetter, 1973, 1974). Third, the present study applied survival analysis to 4030 employees' personnel records during 13 years. This unusual access to the data enabled us to map personal connections and employee behaviours at the workplace, which is particularly valuable in China where the difficulty of accessing data is well known (Cooke, 2009).

The next section explores the closeness of guanxi, career benefits and job turnover among referred employees. It then develops hypotheses to examine the direct (guanxi norms) and indirect (career benefits) influence of close guanxi on employee turnover. A brief description of the data source follows before the paper concludes with a discussion of the results and their theoretical and practical implications.

## 2. Guanxi and employee referrals

Guanxi has been widely considered as a key Chinese sociocultural concept that provides insight into Chinese society. Researchers have examined the influence of guanxi at the micro (individual and interpersonal) and macro (the organizational, industry and societal) levels (Chen et al., 2013). At the individual level, guanxi refers to the state of being related through particular ties between two or more individuals (Chen & Chen, 2009; Lin, 2001). On the basis of the level of obligations and reciprocity, guanxi has been differentiated into familial and kinship, friends (at school, work or social life), acquaintances and strangers (Han & Han, 2009; Tsui & Farh, 1997). Friendship can be seen as important as family to the individuals concerned (Lin, 2001).

Guanxi has an instrumental value for the parties at the workplace (Hwang, 1987), and has traditionally been part of the labour market system for those wishing to attain urban jobs under the planned economy (Bian, 1997). It was predicted to decline with institutional changes in the 1990s (Guthrie, 1998), but an ever-

increasing use of guanxi for job searches and recruitment in the transitional economy has been well documented in recent years (Bian & Huang, 2015; Zhao, 2013). This may reflect a society with tendencies towards familial collectivism alongside general low trust of others (Chua, Morris, & Ingram, 2009; Yamagishi & Yamagishi, 1998, pp. 109–123). Guanxi is extensively used to cope with labour market uncertainty by both job applicants and employers. Empirical studies show that human resource (HR) managers believe that network-based recruitment is more time efficient and more likely to attract highly competent applicants (Han & Han, 2009).

### 2.1. The direct effect of close guanxi and job tenure

Closeness of guanxi overlays tie strength (Granovetter, 1974). Family is the core component of strong ties, while acquaintances are designated as weak ties. However, the most common base of guanxi is institutional, such as sharing the same birthplace, graduating from the same school/college and working in the same organization (Chen & Chen, 2009; Chen et al., 2013; Hwang, 1987; Tsui & Farh, 1997). Close guanxi can be naturally extended to non-family connections when close friendships are seen as family-like. Close guanxi is characterized by higher levels of sentiment and obligation than distant guanxi. In practice, guanxi strength has been predominantly measured by labelling such as family, friends, acquaintance or stranger. Others have attempted to incorporate the frequency of interactions in the measurement as well (Hom & Xiao, 2011), but it is generally agreed that family and friends are stronger than acquaintances, and this definition is used as close guanxi in our discussion.

Distant guanxi (weak ties) may enable individuals to go beyond their usual social circles, and serve as bridges across social boundaries, with the resulting social mobility leading to better jobs (Granovetter, 1982). However, close guanxi (stronger ties) provides a stronger motivation to be of assistance and is typically more readily available; therefore, the bonding of close guanxi leads to a stronger sense of obligation and reciprocation towards the action of reference than unreciprocated nature of distant guanxi or no guanxi. Fidelity to close guanxi transfers to the embedded organization; thus, those referred in this way may be more reluctant to quit. This makes it a key component of reducing voluntary turnover.

In the Chinese context, the closeness of guanxi dictates the degree of compliance with guanxi norms and the obligation and reciprocity to the employment referral in this context. The offer of a job to an applicant who has been recommended (by phone or face-to-face) by a current employee is perceived as showing trust in the referrer by the employer. The referrer is given *mianzi* (dignity and prestige), which is defined as recognition by others, the employer in this case, of an individual's wisdom or social standing (Hwang, 1987; Lockett, 1988). This will enhance the social position of the referrer, who is viewed as a capable and respectable person. On the one hand, it is paramount for the appointee to make reciprocal gestures and to express commitment to the guanxi. The obvious way for the appointee to do so is to be a good employee over a long period, as this will vindicate the referrer's wisdom in selecting suitable candidates. This also increases the referrer's social standing or reputation (*mianzi*) in the community (network). On the other hand, the referrer is more likely to apply pressure on the closely connected appointee than a distantly connected one to perform well and/or have longer tenure in order to maintain their own *mianzi*. Mutual obligation towards the guanxi norms is more likely to work between close guanxi than between distant ones (Bian, 1997; Lin, 2001). Therefore, employees recommended by a close guanxi are more likely to stay longer, and this leads to hypotheses 1a and 1b.

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