

Potent but not Omnipotent: the Efficacy of Social Networks in Chinese Labor Market

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Abstract

Both qualitative and quantitative analyses are incorporated in the paper, attempting to contribute insight to the heated debate on whether the significance of social networks is declining or not in the post-reform period of urban China. Based on in-depth interviews with job seekers in Chinese cities in 2003-2004, this paper proposes a “labor market differentiation” model, which points out the emerging labor market in China is not homogenous but differentiated by multiple factors, including organizational characteristics and institutional context, and thus the efficacy of social networks is limited in some spheres and persistent in others. Within this analytical framework, hypotheses are put forward and the five-city survey data are employed to conduct statistical tests. The preliminary findings show that the efficacy of social networks vary by such factors as work-unit ownership, work-unit rank, industry, job position, city context and reform stage, with the individual characteristics of job seekers being controlled. To conclude, social networks are still potent but not omnipotent for job acquisition in Chinese labor market.

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Draft. Comments are most welcome!

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I. Introduction

There is a heated debate on the significance of social networks in the post-reform period of urban China. On the one hand, some researchers claim the market reform and institutionalization process would lead to “declining significance of *guanxi*” (Guthrie 1998); on the other hand, some scholars echo with different views and hold that the effect of social networks persist significantly due to the “strength of strong ties” (Bian 1997) and the “institutional holes” (Bian 202). As far as the effect of social networks in job acquisition process is concerned, a popular view is that “with *guanxi*, you can make something; without *guanxi*, you can make nothing”; that is, social networks are still regarded as an indispensable means to find jobs in the emergent labor market. Based on the in-depth interviews with job seekers conducted in urban China¹, I try to argue it is difficult to disentangle the controversy of social networks’ efficacy if without probing into the nature of the newly-emergent labor market since the fast-changing socioeconomic realities not only add rich fodder but also raise great challenge to the theoretical thought. Hence, this paper firstly describes some inside stories obtained from the interviews, aiming to clarify why a sweeping answer cannot be satisfactory to discover the real role played by social networks in contemporary labor market. Secondly, the “labor market differentiation” model is proposed, highlighting multiple factors that have impact on the utilization of social networks channel in the labor market, and related hypotheses are put forward. Thirdly, quantitative analysis on the China five-city survey data is presented², showing the social networks are still potent in the labor market but with unignorable limits in certain spheres.

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² The survey project was completed by Prof. BIAN Yanjie in Chinese mainland in 1999. Thanks for his kind permission of using the data for my thesis research.

II. The Potency of Social Networks: Real-life Cases

With the goal of exploring the potency of social networks in emerging labor markets, I conducted in-depth interviews in Chinese cities in 2003-2004, which turn out to be very helpful for understanding the realities of China's current employment practices. Compared to other job acquisition channels (e.g., the hierarchy channel and market channel), social networks appear to remain an important role in the labor markets as shown in the following real-life cases.

Interviewee 12. Ms. Zhang (Aged 32. Hangzhou). Ms. Zhang graduated from a university of Hunan province in 1998 with a major in computer science. As a Zhejiang person, she wanted to go back to work in Hangzhou. At that time, two-way selection (*shuangxiang xuanze*) is the major form of employment; namely, employers and employees choose each other in the labor market. First, she tried to enter a state-owned telecom company via direct application in the recruiting fair but she was rejected because of the intensive competition as well as the company's preference of employing male employees. Later, with the help from her uncle and uncle's old classmate, she got the job offer as wished.

Interviewee 7. Ms. Jiang (Aged 30. Shenzhen). She was specialized in international finance, a very hot major in the early 1990s. Many famous universities enlarged enrollment for this major during those years. The big size implied a keen competition of job application in the graduation year. In that case, Ms. Jiang found many "social phenomena" emerging in the job search processes, such as "pulling interpersonal strings" (*la guanxi*) and "getting in through back door" (*zou houmen*). She hoped to have a job in the Bank of China, while the local Bank of China in every city must apply for the recruitment quotas from the headquarter in Beijing at that time. It was extremely difficult to enter it. Her high-school classmate's

father helped her finally. He was the mayor and later the governor of the province. Without his strong influence, it was impossible for Ms. Jiang to get the job offer from the Bank of China.

Interviewee 19. Mr. Cai (Aged 27. Guilin). When Mr. Cai chose “Money and Banking” as the major in university, his parents had planned they would help him enter a bank or an insurance company in Guilin after graduation. Finally, they made it. In his parents’ *guanxi* webs, several friends worked in the financial sectors. They were rich and usually played *mah-jong* together at his neighbor’s home. That was a good occasion to share their information and concern for everything, also a means to strengthen their relationships and friendship. Mr. Cai’s job was arranged well by his neighbor’s daughter. She worked in an insurance company, occupying a middle-level administrative position. Under her help, he entered the company.

Interviewee 10. Mr. Liang (Aged 35. Shenzhen). His first job was found in the job fair, being employed in the Gas Corporation in Shenzhen. Through five-year hard and creative work, he was promoted to be the manager of the IT department. When he changed job from this middle-level position and joined another software company, it is his social networks that worked. The General Manager of the software company was one of his friends; they met in an international conference and kept close contact since then, not for making economic profits but for mutual appreciation. Gradually, they knew each other well and shared a common social circle (*quanzi*); the General Manager invited Mr. Liang to join his company and work together with him as the vice General Manager.

Like the above individual experiences, similar cases indicating the strong effect of social networks in job acquisition processes are abundant in my in-depth interviews. It is

clear that social networks (e.g., *guanxi* networks) are pervasive and powerful, which are conducive to solving the barriers or gain edge in the job competition. Particularly, social networks' potency is embodied in acquiring jobs in state-owned work units, "hot" industries (e.g., the bank and insurance company), and high-level positions, etc. However, this finding does not mean social networks are omnipotent; social networks' effect is outshone in some other scenarios as shown below.

Interviewee 4. Mr. Duan (Aged 28. Shenzhen). His father had a very good relationship with the vice director of custom; they were the old comrades in arm (*zhanyou*). Mr. Duan said if he decided to find a position in the custom, it should be feasible. However, he did not like to become a civil servant but like to pursue his own profession of being a software developer. He told his father he did not need any *guanxi* help and would rely on his skills to find a job in the labor market. He prepared the resume and other application materials by himself, and mailed them to some IT companies he was interested. In addition, he attended several job fairs. Since "Computer Science" was a major widely demanded in the labor market in late 1990s, a couple of weeks later he received three job offers. He chose one and began to work. He said many classmates found jobs like him, not using *guanxi* and just trying in the labor market; they knew clearly *guanxi* cannot work in applying jobs in such technical sectors like IT industry because the work can be measured easily. In his words, "if you could not solve a technical problem by yourself, your *guanxi* networks cannot help you either; while that is the key point a boss considers."

Interviewee 16. Mr. Xu (Aged 31. Nanning). Mr. Xu's first job was working in the Bank of Communications. He entered the bank through personal direct application, so he did not realize previously how intensive the job competition was. Later, his colleague happened to

tell him an episode about his job application, he knew he won the offer by overcoming other applicants' *guanxi* interference. One of his classmates and his parents ever visited the bank president, asking the bank to cancel the contract with Mr. Xu and sign a new one with them. The classmate's father was a vice chief editor of the top newspaper in Guangxi province, and his mother was a senior journalist; both were the high-level cadres and their home was in Nanning city where the bank is. The president refused their request and insisted in holding the contract with Mr. Xu. After learning the story, Mr. Xu thought he was lucky to have impressed the president, who was righteous, and the bank's hiring process basically followed the market rule; more important, his success can be ascribed to his super qualification for taking the law-related position in the bank since he achieved double bachelor degree (*shuang xuwei*) in economics and law, also had the lawyer's license.

Interviewee 33. Ms. Dong (Aged 33. Shenzhen). Her first job was obtained by their father and relatives; she worked there for three years and realized she should leave her hometown to be independent from family's heavy care and to escape from the interpersonal webs woven in the small communities. She trained from her hometown to Shenzhen, where she had to be completely self-reliant and went to the job fairs for good luck. So far, she has changed eight jobs in total and is quite satisfied with her job of being the Head of Human resources Department. In her eyes, Shenzhen is totally different from her hometown in the hinterland; Shenzhen is more open, with more opportunities for young people. *Guanxi* is not important in the process of seeking job but the true ability and skill matter.

Judged by these cases, social networks look pale in finding jobs in some situations. For instance, in the technical sectors, characterized by the IT industry requiring "hard skills", social networks cannot work usually. Besides, Mr. Xu's experience shows that *guanxi*

influence could be limited or even “defeated” if one party in the job competition has distinguished professional qualities and already contacted the correct person (*zhao dui ren*) for support, like the most important person, the bank president in his case; in other words, if one party’s human capital is strong enough and has presented properly, it will make the influence of the competing party’s social networks shrunk. In addition, the market channel for job acquisition in the coastal cities (e.g., Shenzhen) has become quite effective and diluted the strength of social networks already.

On the whole, based on the real-life cases describing the potency and limits of social networks in job acquisition processes, I have reasons to argue that there is no sweeping answer to the question whether the significance of social networks is declining or persistent in current Chinese employment practices; instead, it should be a more reasonable approach to detect the exact nature of the labor market at first and then look into the role of social networks in the particular segmented spheres respectively. In this sense, I formulate a “labor market differentiation” model and put relevant hypotheses in the following section.

III. The “Labor Market Differentiation” Model and Hypotheses

In my view, the emergent labor market in China is not a homogeneous system but has been differentiated by multiple factors; as reflected in the real-life cases, the utilization of diverse job acquisition channels varies by them. To be brief, work-unit ownership, work-unit rank, industry, and job position at the meso-level as well as the city context and reform stage in the macro-level are supposed to differentiate the labor market and then affect the utilization of job acquisition channels (Figure 1). As far as utilizing job acquisition channels is concerned, it is subject to the impact from the “differentiation of labor market”, but also from

the individual characteristics at the micro-level. The reasons why these “differentiation factors” count are presented below, together with the related hypotheses. Since the individual characteristics are not the key concern in this paper, they will be controlled in my statistical models.

(Figure 1 about here)

To begin with the meso-level factors. *Work-unit ownership* is still a central job characteristic in present labor markets. Ever since the urban labor reform, the non-state sectors that were artificially depressed before are encouraged politically and financially now. The employment structure has broken the two-sector domination in the planned system and commenced to be diversified: state, collective, private, and joint businesses coexisted; particularly the non-state sector began to enhance its share of employment in the whole economy. It is assumed that work units with different ownership type have different employment mechanisms; accordingly, social networks may have different likelihood to play part in them. Thus, the first hypothesis goes as follows:

Hypothesis 1 Social networks are more likely to be used for searching jobs in the state-owned sectors and less likely in the non-state sectors.

Work-unit rank is an important attribute of the redistributive economy system. In the old hierarchy, work organizations are assigned bureaucratic ranks similar to those used to rank military organizations. This ranking method defines the power and authority of work organization: the higher bureaucratic rank a work organization was assigned, the more resources, budget and power it received from the state, and the more profits, compensation packages and opportunities it could offer employees. Hence, the bureaucratic rank reflects the position occupied by a work unit in the inter-organizational stratification system (Walder

1986, 1992; Bian 1994; Li 2000), which remain in state institutions and SOEs currently. In such a remaining hierarchy, it can be argued that the higher rank implies a more strict control of the administrative resources and a less access to possible *guanxi* helpers. What is more, the reform of civil servant system and recruiting new officials through formal examinations were firstly implemented from the central-level bureaus. Therefore, utilizing social networks in the higher work-unit rank would be less possible.

Hypothesis 2 The higher the work-unit rank, the lower the possibility that social networks would be employed in the job search process.

Industry is usually discussed by differentiating three types of industry, i.e., the first industry, the second industry, and the tertiary industry. In this paper, the classification of industry does not follow this tradition but mainly refers to the profitability of various industries. In terms of Chinese news report and statistical information, the rich-poor gap or income inequality among different people now can be ascribed to the excessively unequal wage distribution among industries in which they work. For example, some industries are regarded as the “monopoly” industries. In 1990, among all industries, the average wage of workers the farming industry was the lowest (1,541 yuan) while that of the production and supply of electricity, gas and water was the highest (2,656 yuan); the latter was about 1.7 times of the former. Comparatively, in 1999, the average wage of workers in farming industry was still at the bottom (4,832 yuan) and the top one is that of the industry of banking and insurance (12,046 yuan); the top was nearly 2.5 times of the bottom. The absolute gap between the two extremes in 1990 and 1999 were respectively 1,115 yuan and 7,214 yuan (NBS 2000). It is worthy of attention here that the results have not taken the other fringe benefits and welfare received from various industries into account at all. Provided with such a remarkable industrial wage difference, we envision that the highly profitable industry will

attract more applicants, and social networks would be more likely to be used for increasing the odds of winning the job opportunity in the intensive competition.

Hypothesis 3 To acquire jobs in high-profit industries, social networks are more likely to be used.

Job position deserves emphasis as well in analyzing the choice of job search channels. With the division of labor becomes more specialized in contemporary society, a variety of job positions demand to be filled by persons with particular skills or traits. As illustrated in Erickson's research (2001), social capital is a job qualification for many high-level jobs, but not for lower-level ones. Lin (2001) predicts, for some jobs with specific requirements, credentials regarding skills and training in the formal application may be sufficient to obtain positions. However, for other critical jobs, formal credentials are often insufficient to convey the social skills and resources so essential for occupants' performances. According to this line of thought, I put forward a hypothesis:

Hypothesis 4 To find jobs related to making social communications, social networks are more likely to be used; to find technical jobs, social networks' effect tends to be insignificant.

Finally, it is supposed that *city context* and *reform stage* are two macro-level factors pertinent to the choice of job search channels. In terms of the aforementioned interviewees' experiences as well as the fast but immature development of labor markets, I try to propose:

Hypothesis 5 In the highly-developed city, social networks are less likely to be used.

Hypothesis 6 In the post-reform period, social networks are more likely to be used.

IV. Data and Measurements

The data source

The analysis presented in this paper uses a large-scale survey data collected in 1999 in five cities of China. Multistage probability sampling design was adopted in this survey by taking advantage of the cities' geo-administrative structure (city district, subdistrict, and neighborhood committees). Respondents are required to be aged no less than 18 and with civilian labor-force experience. These five cities cover a wide range of informationization degree, marketization degree, and economic development. Guangzhou (N=808) and Xiamen (N=1,000) are two southern cities; Shanghai (N=1,000) is in the southeast and Tianjin (N=1,001) in the north; and Changchun (N=943) is located in northeast China.

Measurements

Dependent variable: Utilization of social networks

In the survey questionnaire, respondents were asked to check what kinds of channel were employed in their job search experience of entering current work unit. Nine items are included: (1) replace parents, (2) replace relatives, (3) internal recruitment in work unit, (4) state assignment/organizational transfer, (5) introduction by employment agency, (6) introduction or recommendation by someone, (7) direct application to employers, (8) self-employment, and (9) other. The first four items are regarded as job search through "hierarchy channel"; the sixth item as through "networks channel"; and the remaining items belong to the "market channel". Since my major concern in this paper is about the use of social networks, I only select the "networks channel" to code as a dummy variable, with "1" denoting having utilized social networks while "0" have not.

Independent variables

Independent variables include two major groups: the one is “job characteristics” and the other is “macro context”. The former refers to four variables, namely, “work-unit ownership”, “work-unit rank”, “industry”, and “job position”; the latter comprises “city context” and “reform stage”. All the variables are categorical.

Work-unit ownership

It includes four types: (1) state sector, referring to the items of “state bureau”, “economic management bureau”, “state institutions”, and “state-owned enterprises” in the questionnaire; (2) individual sector, meaning “individual economy (*geti*)”; (3) new economy sector, referring to “private enterprise”, “foreign invested enterprise”, “joint venture enterprise”, “complex enterprise (*lianhe*)”, “joint-stock enterprise” and “other”; and (4) collective sector (collective enterprise in questionnaire), used as the reference group in the statistical model.

Work-unit rank

It is divided into four categories: (1) central: “departments, bureaus, and ministries at the central level”; (2) provincial: “departments or work organizations at the provincial level”; (3) municipal: “departments or work organizations at the municipal level”; and (4) below municipal: “all the other departments or work organizations below the municipal level”; it is the reference group.

Industry

In terms of the relevant statistics released by NBS (2000), I categorize sixteen types of industry into two groups: the high-profit industry, including “production and supply of electricity, gas and water”, “construction”, “transport, storage, post, and telecommunications”,

“banking and insurance”, and “real estate trade”, versus the other industries coded into the reference group.

Job position

The variable is generated from the four-scale table of respondents' job-position features. In total, twelve items are listed in the questionnaire to describe different features about job positions, which can be grouped as three types: (1) the communication job, referring to the job of communicating with high-rank leaders or departments, colleagues at the same level or lower level, departments or organizations at lower levels, and other work organizations; (2) the technical job, meaning the job of dealing with paper work, data processing, and technical materials, using computers, as well as operating machines and other tools; and (3) the service job, indicating a job of serving customers, clients, and guests. If a respondent ticked “often” or “sometimes” in the scale of job position features of a particular item, his/her job is treated as assuming this feature; if he/she ticked “seldom” or “never”, his/her job position will be regarded as being without the particular feature. The service-related job is selected as the reference group.

City context

Based on representative statistical information about the five cities (NBS 2000), I rank them by three indicators: informationization degree, marketization degree, and economic development (see Appendix A). It turns out that Shanghai and Guangzhou are overall most developed in terms of these aspects and thus coded as the “highly-developed cities” while the other three as the reference group.

Reform stage

Based on China's labor policy reform, it is meaningful to differentiate three periods for current job entry: (1) the pre-1980 period, a period before reform; (2) the 1980-1992 period, the so-called "dual track" stage, in which market channel began to emerge and served as a supplementary means for hierarchy channel; and (3) the post-1992 period, in which the hierarchy mechanism was undergone a fast removal and left residuals coexisting with increasing market force. The first period is employed as the reference group.

Control variables

Control variables are mainly the "individual characteristics" variables, including *gender, age and age squared, party membership, cadre, educational level, and income (log form)*. Because of space, detailed explanation is not presented here.

V. Findings and Discussion

Testing the hypotheses

The binary logistic regression model of predicting effects on utilizing social networks in job search processes is presented in Table 1, with variables of individual characteristics being controlled. First, with regard to Hypothesis 1, it is related to the independent variable of "*work-unit ownership*" in the model. The result indicates this hypothesis is partly supported; namely, it is true that in the individual sector social networks are significantly less likely to be used but the prediction of the effect of social networks in the state-owned sectors turns to be insignificant.

(Table 1 about here)

Second, the effect of *work-unit rank* on the utilization of social networks offers a confirmative evidence for supporting Hypothesis 2. When searching jobs in the central-level work organizations, the possibility of making use of social networks is significantly lower than that in work unit of below-municipal rank. The odds-ratio associated with using social networks in the central-level rank is .403, meaning its likelihood is about 60 percent lower by referring to that of the lowest-level rank.

Third, regarding how the *industry* feature affects choosing social networks, it is significantly evidenced by the odds-ratio of using social networks in the high-profit industry. The possibility of entering this industry through social networks is about 1.4 times as likely to enter lower-profit industry by the same channel. So, Hypothesis 3 is supported by the statistical result.

Fourth, the effect of *job position* is captured by the odds-ratio 1.269; that is, to acquire a communication job, the possibility of using social networks will be more than 1.2 times as likely to get a service job. Regarding the technical job, it does not have significant effect on using the networks channel. Consequently, Hypotheses 4 finds statistical support from the data.

Finally, both *city context* and *reform stage* have significant effects on utilizing social networks. To be precise, the highly-developed cities are less likely to use social networks with reference to the low-developed counterpart, with a possibility being lower 35 percent or so. As far as the reform stages are concerned, they show the strongest effect on utilizing social networks in the full model. For instance, in the post-1992 period, social networks are about 8 times as likely as that to be used in the pre-1980 years; the similar pattern, with

different possibility (i.e., 3 times) though, also assumes in the period of 1980-1992. Therefore, Hypotheses 5 and 6 are supported.

Discussion

Basically speaking, the proposed “labor market differentiation” model gains a comprehensive support from the data analysis, except that the first hypothesis on the effect of work-unit ownership is partly underpinned. In other words, it has been tested that the utilization of social networks varies by the differentiated labor market. Correspondingly, it can be inferred that the potency of social networks may be stronger in some spheres but weaker or limited in some other. On the whole, in the individual sector, higher-rank work units, and highly-developed cities, social networks appear to be less potent; the same result is presented with searching the technical jobs by social networks; on the other hand, to find a job in high-profit industries or related to making social communications, especially in the post-reform stage, social networks are more likely to be useful.

In my view, the above findings can be interpreted from three explanation perspectives: the marketization-degree account, the job-desirability account, and the job-skill account. First, the marketization-degree has an undeniable effect on the utilization of job search channels. With the development of labor markets and more and more jobs being matched through the formal channels, it is a natural tendency that social networks’ effect would be declining. Thus in the individual sector, higher-rank work units, and highly-developed cities where the marketization degree is higher, social networks are generally not potent. Second, the job-desirability account can predict how the desirability degree of different jobs affects choosing job search channels. As we know, jobs in labor markets are heterogeneous: some may be characteristic with higher income, some may be typical for stable or decent working

environment, and some may be associated with higher prestige, so on and so forth. Therefore, it makes sense that different jobs would attract people by different attributes. What kind of jobs are “hot” or strongly desired by people in a society vary by periods, but they share one characteristic in common, i.e., a highly-desired job would incur intensive competition in labor markets. In order to win the job competition, a rational competitor may consider employing social networks, which not only excel in collecting suitable information for the target job, but also serve as a flexible, reliable and low-cost channel for influencing job acquisition. Third, the job-skill account may explain the job positions with different skill requirement have impact on selecting the job search channels. For the technical jobs, their requirement about the technical skills can be easily measured and the skills can be signaled by the job applicants through the market channel, then social networks are seldom accessed for help in the job search processes. On the contrary, the communication skills are “soft” or “invisible” and the formal credentials are usually insufficient to prove them, thus social networks are needed to be employed for a better transmission of the relevant information and resources.

Figure 1 The impact of labor market differentiation on utilizing job acquisition channels

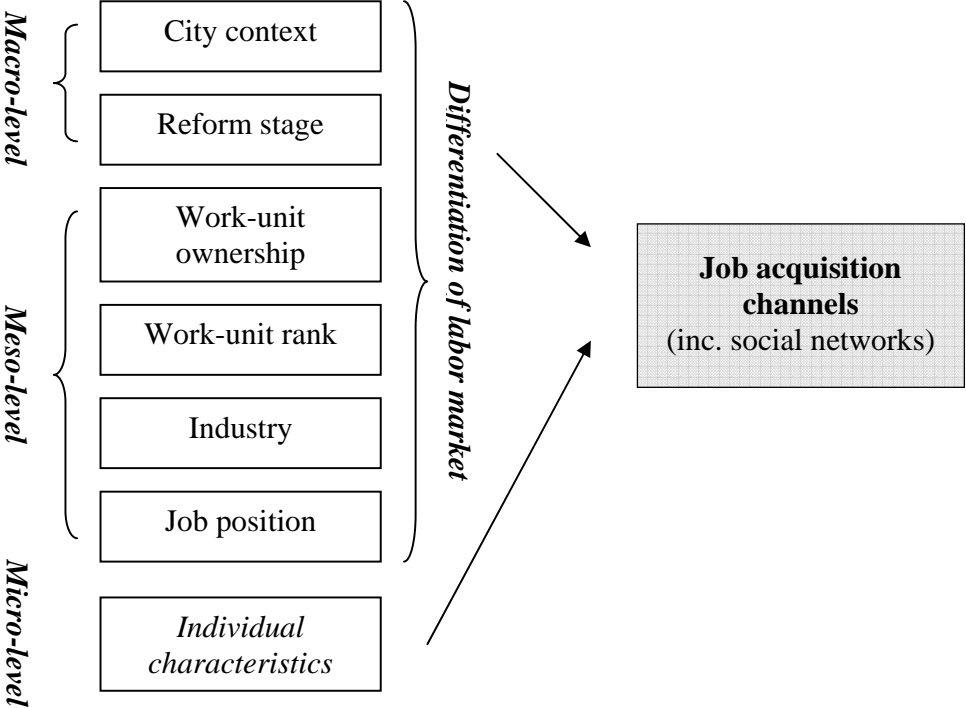


Table 1 Logit Coefficients and Odds Ratios in Predicting Effects on Utilizing Social Networks in Job Search Processes, Five-City Survey, China, 1999

Independent variables	Utilization of Social Networks
<i>Job characteristics</i>	
Work-unit ownership ^a	
State sector	-.022 (.978)
Individual sector	-.447** (.640)
New-economy sector	-.061 (.941)
Work-unit rank ^b	
Central	-.909*** (.403)
Provincial	-.358! (.699)
Municipal	-.151 (.860)
Industry ^c	
High-profit industry	.334** (1.396)
Job position ^d	
Communication job	.238* (1.269)
Technical job	-.020 (.981)
<i>Macro context</i>	
Highly developed city ^e	-.431*** (.650)
Reform stage ^f	
1980-1992	1.153*** (3.167)
Post-1992	2.105*** (8.205)
Control variables ^g	(not presented)
Constant	-4.861*** (.008)
R square (Nagelkerke)	.185
Number of cases	3550

Note:

1. The numbers in the parentheses are the odds-ratios, which are the exponential transformation (antilog) of the logit coefficients.
2. ^a The reference category is collective sector.
^b The reference category is the below municipal and other rank.
^c The reference category is lower-profit industry.

^d The reference category is service job.

^e The reference category is non-highly-developed cities, i.e., Changchun, Tianjin, and Xiamen.

^f The reference category is pre-1980.

^g Control variables are mainly the “individual characteristics” variables, including gender, age and age squared, party membership, cadre, educational level, and income (log form).

3. ! $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$