

CRONYISM: ANTECEDENTS AND CONSEQUENCES

NARESH KHATRI

Assistant Professor
Nanyang Business School
Nanyang Technological University
Mail Box: S3-B2-C-82
Singapore 639798
Phone: (65) 790-5679
Fax: (65) 791-3697
E-mail: ankhatri@ntu.edu.sg

CHENG YA WEN

Nanyang Business School
Nanyang Technological University
Singapore 639798

LEE WAN FUEI

Nanyang Business School
Nanyang Technological University
Singapore 639798

TJENG AI GEOK

Nanyang Business School
Nanyang Technological University
Singapore 639798

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ABSTRACT

Cronyism is favouritism shown to associates without regard to their merit/qualifications. In “real” politics, the associated dangers and economic damages of cronyism were brought to surface by the recent Asian upheaval. What triggered our interest in the topic is whether cronyism is applicable to the organizational context.

We believe that cronyism is quite prevalent in organizations. However, it is a neglected concept and has not received due attention from scholars. Thus, to better our understanding of the dynamics and implications underlying cronyism, we present two models (an antecedents model and a consequences model) in this paper and discuss a number of propositions that follow from the models.

We briefly examine the origin of the term, cronyism, and its relevance in “real” politics and organizations, and then provide a comprehensive definition of cronyism and distinguish it from other related constructs. This is followed by development of a two-stage conceptual model of cronyism antecedents. The model is grounded in the Chinese/Asian cultural context. We argue that Confucian values, lack of trust, collectivism, and high power distance raise the importance of certain desirable behaviours (loyalty and relations). These behaviours, in turn, lead to three important antecedents of cronyism: overemphasis on loyalty, overemphasis on relations, and formation of strong ingroups.

In the subsequent section, we present a model on consequences of cronyism and assess the impact of cronyism on individual- and organizational-level outcomes. We argue that cronyism may have desirable outcomes for certain individuals, but it may be counterproductive for the organization.

CRONYISM: ANTECEDENTS AND CONSEQUENCES

Origin of Cronyism

Cronyism is a compound of the word *crony*, which seems to have originated as a slang among undergraduates at the University of Cambridge in the 17th Century, meaning close friend. *Crony* comes from the Greek word *khronios* meaning “long-standing” (Oxford English Reference Dictionary, 1995). The original idea was that ‘someone was a crony if you had been friends with them a long time, or even perhaps if you were exact contemporaries of theirs’ (World Wide Words, 1998).

Cronyism evolved around 1840, and it initially meant ‘the ability to make friends, or perhaps the desire to do so’ (World Wide Words, 1998). It first came into use in political parlance around 1946 when a Washington columnist described the practice of American President Roosevelt, who had appointed people of doubtful competence into public office on the basis of personal relationships, as cronyism (The Oxford English Dictionary, 1989). In 1952, the Truman administration was similarly accused of appointing friends to government posts regardless of their qualifications. Thereafter, the neutrality and innocence of the word was destroyed. Subsequently, *crony* became a pejorative term, and now, it often encompasses a derogatory sense of a friendship with a whiff of political corruption or preferential advancement about it, not just (or not even) the sense of long-standing friends who enjoy each others’ company (World Wide Words, 1998).

Cronyism in “Real” Politics

Crony capitalism, or the granting of economic favours to friends and privileged associates is widely believed to be one of the contributory factors of the 1997 Asian financial crisis (Dale, 1999). Cronyism which resulted in financial institutions extending excessive credit to people in favour and with special connections is one of the “4 Cs” (*Collusion, Cronyism, Corruption and Complacency*) believed to have undermined competition (Vogl, 1999).

Indeed, the “I-scratch-your-back-and-you-scratch-mine” mentality is nothing new in politics, whether in Asia or elsewhere (Asiaweek, 1999). However, societies in Asia have often turned a blind eye to such behaviour until the associated dangers and economic damages were brought to surface by the recent Asian upheaval.

In “real” politics, cronyism is often used synonymously with corruption. The World Bank broadly defines corruption as “the abuse of public office for private gain” (Bottelier, 1998), which ‘creates favourites, loopholes, connection-based advantages, and fosters an unpredictable and opaque rule of personality’ (Suite 101 Articles, 1998). What triggered our interest in the topic is whether cronyism, a commonly used term in politics, is applicable to the organizational context.

Recent research puts new light on the old expression “it’s not what you know but who you know” which reinforces the importance of connections in organizations. An AFL-CIO (American Federation of Labor-Congress of Industrial Organization) study documents how cronyism, personal friendships, and interrelationships between top executives and corporate compensation committees and boards contributed to runaway executive salaries (Washington Report, 1998). Another study has shown that individuals who are well connected have higher career attainment than those who are not (Hurley, Fagenson-Eland & Sonnenfeld, 1997).

Cronyism in Organizations

Cronyism is nothing new in “real” politics and recent research has shown that it does exist in organizations. In fact, office politics is highly similar to “real” politics (Warshaw, 1998). Thus, with reference to the organizational context, cronyism may be considered as a form of organizational politics. The latter refers to unofficial actions taken to influence others in order to enhance or protect one’s own or one’s group’s interests.

To have a better understanding of why cronyism arises, perhaps we can infer from the reasons that give rise to organizational politics. Organizations are seen as ‘complex systems of individuals and coalitions, each having its own interests, beliefs, values, preferences, perspectives and perceptions’ (Ott, 1989, pp. 165). Hence, political behaviour results as they compete with each other continuously due to scarcity (i.e., limited resources, opportunities, and options in the organizations) (Pepper, 1995) and conflicting interests (Pinto, 1996; Ott, 1989).

Politics, which is basically the application of influence and power (Jenks, 1990) is a natural part of organizations so long as people are involved (Graham, 1998). Indeed, relationships among people create the complexity of organizational life (Barge, 1994). Beneath the cloak of formal relationships in every organization, there is a more complex system of social relationships, which arise spontaneously as people associate with one another. Unlike the formal structure, which emphasizes official positions in terms of authority and responsibility, the informal structure emphasizes people and their unofficial relationships (Newstrom & Davis, 1993). According to Furnham (1997), the informal system evolves to fulfil needs that cannot be met by the formal system. Indeed, developing informal relationships with the right people, who may include organizational subordinates, peers, and superiors, can prove a useful means of acquiring power (Johns, 1992). Often, such informal relationships in the organization bring about more influence and power than the formal relationships (Jenks, 1990).

Our Definition of Cronyism

For the purpose of this study, we define cronyism as one particular form of organizational politics, which is a much broader concept comprising varied political behaviours. In order not to dilute the meaning of cronyism, it is important to emphasize that not all political behaviors involve cronyism. Generally, cronyism is favouritism shown to associates without regard to their qualifications. Often, decisions are based on who is liked and not premised on merit. For example, an employee with a good performance record loses out on a promotion or pay increase because the person in charge favoured another person on the basis of friend-friend,

informal relationship. Thus, merit takes a back seat in cronyism, as it is favouritism that determines who gets ahead.

The friend-friend and informal relationships in cronyism may override organizational charts and they involve an element of “power-seeking”, where individuals exchange more than friendship among themselves to further individual goals that cannot be met through formal channels. Such interpersonal connections result in the formation of “cliques” (Trice & Beyer, 1993) or “ingroups” which tend to be exclusive. We propose that cronyism is dynamic in nature as the relationships among cronies may change, i.e., one may join another crony group when one sees an advantage in doing so; in particular, when one’s self-interests can no longer be satisfied by the existing crony group. Hence, cronyism is not necessarily long-standing, which is a deviation from the original meaning of the word discussed earlier.

In addition, we wish to highlight the dynamic nature of cronyism from another perspective. According to Walder (1983), a particularistic reward system provides fertile ground for the growth of pervasive networks of informal ties and favouritism. Indeed, the politicization of reward systems brings about unintended consequences by creating strong material incentives for subordinates to exhibit the proper attributes in front of their superiors. Due to the ability of superiors to reward subordinates flexibly and subjectively, subordinates in turn attempt to cultivate personal ties with superiors and conform to their preferences *proactively* in order to improve or secure their positions. Often, the relationship between superiors and subordinates is one in which *active loyalty* is exchanged for reward.

Distinguishing Cronyism from Other Related Constructs

After defining cronyism, we distinguish it from related constructs in the organizational context such as nepotism, guanxi, and favouritism.

Nepotism is derived from the Latin word *nepot* meaning nephew. The negative connotation of the word dates back to the Renaissance Era, whereby Popes used to

find high-level clerical offices for their nephews without regard to their qualifications (Abdalla, Maghrabi & Raggad, 1998). Webster's Third New International Dictionary (1976) defines nepotism as "favouritism shown to nephew and other relatives, as by giving them positions because of their relationship rather than their merit". Thus, nepotism is similar to cronyism in that it involves favouritism, but it is narrower in scope as it is solely based on familial ties.

Guanxi literally means "relationship" or "connection". It can be best translated as friendship with implications of continued exchange of favours (Pye, 1992). *Guanxi* is a long-term relationship and it embodies reciprocal obligations of the parties involved. A *guanxi* base must exist which comprises both blood base and social base, where the former includes only familial connections while the latter encompasses other social (i.e., non-familial) connections (Tsang, 1998). *Guanxi* may be seen as synonymous with cronyism in that it involves interpersonal obligations and is based on relationships rather than objectivity. However, it extends beyond our definition of cronyism, as it comprises both familial and non-familial relationships, while our definition is confined to non-familial, informal relationships in the organization. Furthermore, *guanxi* is of a long-standing nature as *guanxi* relationships persist long after the groups are dissolved (Goodwin & Tang, 1996). In contrast, cronyism is not necessarily long-standing.

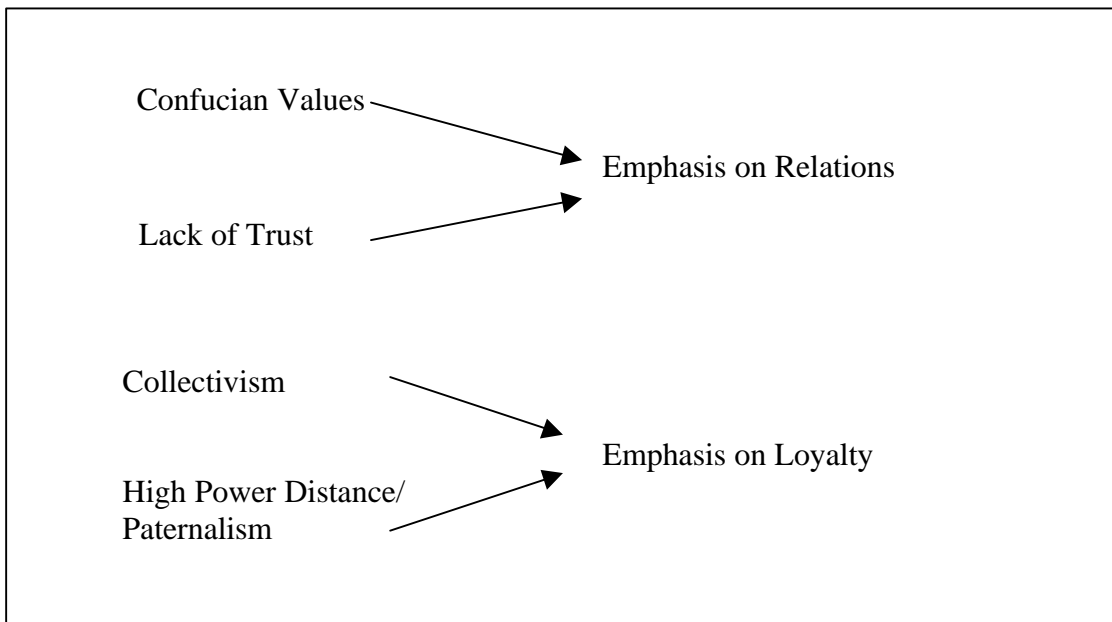
Favouritism, another related concept, involves subjectivity or bias based on personal preferences (Prendergast & Topel, 1993). Although favouritism falls within our definition of cronyism, it is narrower in scope as it does not entail connections and processes that cronyism does.

THE MODEL OF CRONYISM ANTECEDENTS

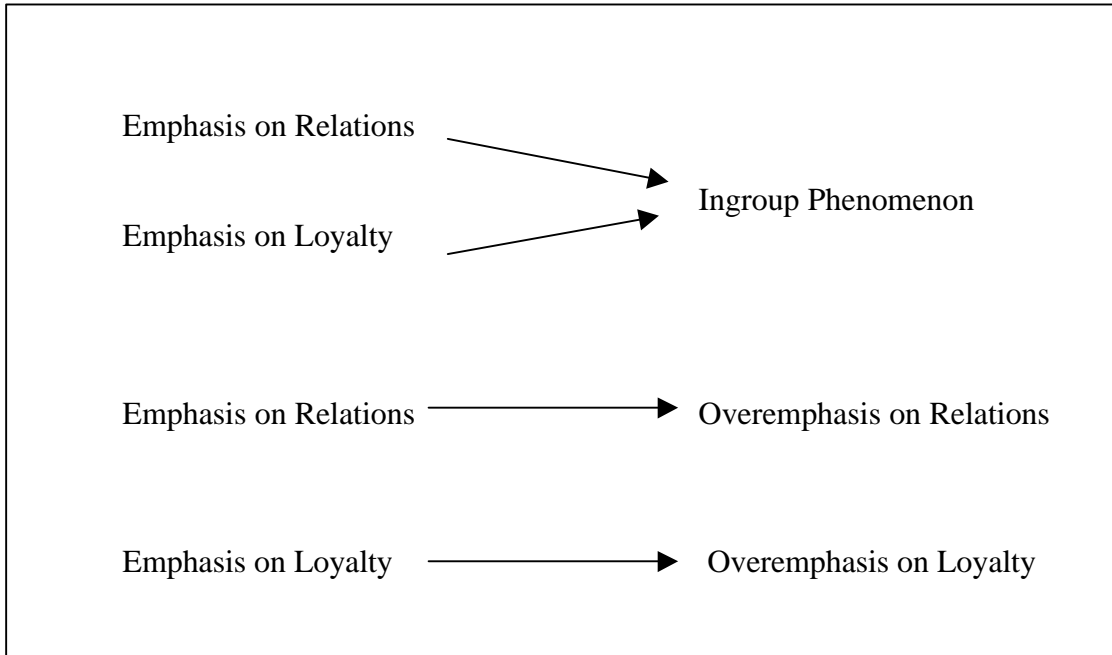
Our model of cronyism antecedents is presented in Figure 1. We argue that certain cultural values provide conducive environment for behaviours that lead to the immediate antecedents of cronyism. Although all cultures have more or less of the values that ultimately lead to cronyism, the Chinese/Asian culture is especially pregnant with elements suitable for crony behaviour.

Insert Figure 1 about here

We discuss the model in two stages. In the first stage, the relevant cultural values, *Confucianism*, *lack of trust*, *collectivism*, and *high power distance/paternalism*, are discussed in that order. An in-depth analysis of how each cultural value leads to certain desirable behaviours is provided. A simplified version of the **stage one** analysis is as follows:



In the second stage, we discuss how the identified desirable behaviours contribute to the immediate antecedents of cronyism: *ingroup phenomenon*, *overemphasis on relations*, and *overemphasis on loyalty*. A simplified version of the **stage two** analysis is as follows:



Taking a broad view of our two-stage conceptual model, we propose as follows (detailed arguments on the model will be discussed in the subsequent section).

Proposition 1: The Asian culture gives rise to antecedents of cronyism (ingroup formation, overemphasis on relations, and overemphasis on loyalty) via valued/desirable behaviours (emphasis on relations, emphasis on loyalty).

Stage One Analysis

In this stage, we link the four cultural values (Confucian values, lack of trust, collectivism, and high power distance/paternalism) with two highly desirable behaviours (emphasis on loyalty and emphasis on relationships). A simple exposition of our arguments is presented in Figures 2(a) to 2(d). Detailed arguments are as follows.

Insert Figures 2(a) to 2(d) about here

Confucian Values

According to Chan (1963, 1967) and Fung (1983), Chinese culture is characterized by its emphasis on human interaction as the “fundamental groundwork of its philosophical systems”. *Confucian values*, being a primary influence of Chinese culture, have shaped much of the contemporary Chinese behaviour (Ralston et al., 1997). As stated by Gabrenya and Hwang (1996, pp. 309), Chinese social behaviour is often interpreted as “a reflection of Confucian ideological beliefs”. Confucianism emphasizes the importance of society, group, and hierarchical relationships within a society (Ralston et al., 1997). According to Confucius, there are five most fundamental cardinal relations known as *wu-lun* in which power and status differentials are prescribed: emperor-minister, father-son, husband-wife, brother-brother and friend-friend (Gabrenya & Hwang, 1996; Chen, 1995; Goodwin & Tang, 1996). Of these relations, voluntarily constructed friend-friend relations are of the utmost importance in our study of cronyism as we have confined our scope to non-familial relations.

Confucian philosophy assumes that different relationships imply different norms of interaction. Thus, social interaction is ruled by the principle of behaving “according to relationships”. Similarly, the cultivation of external relations (beyond family) is also governed by humanistically oriented emotions, which can be seen as the guiding spirit of the Chinese cultural life. To the Chinese, being part of an integrated network of social relationships is of utmost importance (Chang & Holt, 1994). Three cultural mechanisms, *guanxi*, *renqing*, and *relational personalism*, are used to extend familial support beyond the domestic setting (Current Anthropology, 2000).

Guanxi is the key concept for understanding Chinese behaviour in social, political, and organizational contexts (Bond & Hwang, 1986). According to Hwang (1987), interpersonal relationships in Chinese society can be classified into three categories: expressive ties, instrumental ties, and mixed ties. We have identified *mixed ties* to be more applicable since they are considered as “the *guanxi* outside an individual’s immediate family” (Bond & Hwang, 1986, pp. 224). This kind of relationship has a particularistic and personal essence where the affective component of such ties

overshadows the instrumental part of the relationship. Due to this strong affective component, individuals seek to influence others by means of *renqing*.

Renqing indicates “the emotional responses of an individual confronting various situations of daily life” (Gabrenya & Hwang, 1996, pp. 313; Hwang, 1987, pp. 953). Resources are thus distributed according to the *renqing* rule instead of the equity rule as *renqing* denotes a set of social norms that one has to abide by in order to establish and maintain favourable relationships with other people. Special considerations are given especially if any of the parties involved in a social exchange is someone in power (Hwang, 1987). The manipulation of such interpersonal relationships has long been a strategy for attaining desirable resources in the Chinese society (Bond & Hwang, 1986).

In the Chinese culture, the rule of *renqing* is a “derivative of the norm of reciprocity” (Hwang, 1987, pp. 956). Individuals are influenced by the Confucian view that interpersonal relationships consist of an element of *reciprocity* (*bao*), i.e., the recipient of a favour should repay it (Gabrenya & Hwang, 1996).

In organizational context, Chinese culture puts greater emphasis on seniority, relationships, and family ties (Kipling, 1996). For instance, the employment relationship is relationship-oriented rather than contract-oriented. As noted by Hampden-Turner and Trompenaars (1997), relationship comes before the contract. The dyadic relationship between the superior and subordinate tends to be governed by their interpersonal ties rather than contractual obligations. Thus, within an organization, there is a clear demarcation between members of *ingroups* and *outgroups* (Goodwin & Tang, 1996). This phenomenon is an application of “relational personalism” in organizational context (Gabrenya & Hwang, 1996, pp. 311).

Personalism refers to “the mechanism used by a society to establish reliable connections for the conduct of everyday affairs” (Redding & Hsiao, 1993, pp. 177). The exercise of personalism in interpersonal relationships allows the Chinese to overcome the problem of insecurity due to a lack of institutional systems such as laws. This traditional mechanism still remains (Redding & Hsiao, 1993).

In conclusion, the emphasis on interpersonal relationships in Confucianism results in the development of complex networks of *guanxi* and the use of personalism in social interaction. This allows individuals to utilize their relations in the most beneficial way. Since cronyism is a phenomenon which involves “using people” and connections to obtain special privileges, its existence can be justified in a more relation-based culture, i.e., a culture that is influenced by Confucian values. Hence, the following argument [see Figure 2(a) for the summary argument]:

Proposition 2: Confucian values stress the importance of relationships.

Lack of Trust

Trust is of central importance to social networks, especially in the Chinese society (Redding, 1990). The traditional Chinese society is structured in such a way as to negate the support of trust in institution. Instead, trust is transacted over elaborate webs of necessary connections or relations, i.e., *guanxi* networks (Redding, Norman & Schlander, 1994). Trust is an essential condition for building and maintaining *guanxi* in a relation-based society (Yeung & Tung, 1996). The Chinese have great difficulty in relationships which are of a neutral and objective nature as they cannot “read” trustworthiness (Redding, 1990). This implies that for the Chinese, business relationships may evolve from their personal *guanxi* only when the counterparties are perceived as trustworthy (Tsang, 1998).

According to Mayer, Davis, and Schoorman (1995, pp. 712), trust is conceptually defined as “a willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that party”. Under the *guanxi* networks, the risks of “vulnerability” or uncertainty can be greatly reduced as any opportunism is checked by trust (Bjorkman & Kock, 1995), which tends to be exclusive (Redding, 1990). Here, trust is limited to partners in the bond and works on the basis of personal obligations, maintenance of reputation, and face.

Redding, Norman, and Schlender (1994) identified two features that are commonly emphasized in general discussions of societal trust processes among the Chinese. The first feature is the high importance placed on individual trustworthiness and the second feature is the highly selective nature of the bonds in a context of general mistrust. Therefore, to the average Chinese, the social world comprises of those limited ones whom they can trust to a very high degree and the remaining ones who are not trusted at all.

In general, the Chinese do not trust strangers. This characteristic of lack of trust can be attributed to the feelings of insecurity experienced by the Chinese. Hence, personal networks established based on trust become appropriate tools for the Chinese to overcome their fear of insecurity and provide comfort in the face of uncertainty (Krackhardt, 1990).

In the Chinese culture, an individual is a “self-created centre of an ever-expanding set of relationship ‘circles’” (Fei, 1947). In organizational context, interpersonal relationships can also be represented by concentric circles. The central circle is the family itself and the next circle is the protofamily who are treated as if they are honorary family members. The outside circle consists of the remaining employees. Even though family occupies a central position in the Chinese’s social circle, trust bonding also extends to non-kin members (Redding, Norman & Schlender, 1994). Wong (1988) noted that bonding is “a matter of the degree of personalism in the connections” regardless of the existing family ties.

In conclusion, the Chinese’s lack of trust in others (outsiders) results in emphasis on relations as a mode to obtain resources they desire. The development of networks based on personal relationships helps to solve the problem of insecurity faced by the Chinese. Hence, the following proposition [see Figure 2(b) for the summary argument]:

Proposition 3: Lack of trust leads to greater emphasis on relations.

Collectivism

Collectivism defines and shapes relationships of people in a culture and social structure they operate in (Hofstede, 1980; Earley, 1997). In the following paragraphs, we explain how *emphasis on loyalty* can be traced to this important dimension.

Hofstede (1980) defined collectivism as the opposite of individualism and it exists in societies where people since their birth are integrated into strong, cohesive *ingroups* that continue to protect them throughout their lifetime in exchange for *unquestioning loyalty*. Collectivism emphasizes the group and the maintenance of ascribed and interpersonal relationships (Kim, 1994). The element of collectivism emphasized in ingroup relationship between the superior and his or her favoured subordinates is "ingroup loyalty".

In a collective society, there is a tendency towards the attachment of the individual to a group (Redding & Wong, 1986). Even though collectivistic individuals are attached to a small number of groups, the sense of attachment and group identity present are very strong (Triandis, Brislin & Hui, 1993). Thus, collectivists are inclined to behave differently depending on whether the other party is a member of their ingroup or not. If the other party is an ingroup member, the behaviour would be very associative (Triandis, 1994). This could involve the display of social behaviour like the provision of support and assistance to the ingroup member (Triandis, Brislin & Hui, 1993). In fact, "socioemotional inputs" may be accorded a relatively stronger role in the determination of payoffs rather than task-related inputs, in the making of contributions towards group maintenance (Bond, Kwok & Kwok, 1982, pp. 187). Since 'loyalty to the leader is usually tied to the need of belonging and of finding group identity...' (Pye, 1985, pp. 332), it follows that the need for attachment brings about the display of loyalty from the subordinate to superior, and this need is essentially entrenched in the cultural value, collectivism.

The maintenance of such interpersonal relatedness has been labeled "collectivistic" by Kim (1994). In collectivistic cultures, where the emphasis is on people, ingroup relationships are intensive and interdependence is high (Triandis et al., 1988). Hence,

it is little wonder that, in a collectivistic work unit, the employment relationship resembles a family relationship with mutual obligations of protection in exchange for loyalty (Hofstede, 1991). Therefore, there is a greater possibility that collectivists would select, evaluate, and promote individuals based on their loyalty and seniority than on their merit and competence (Triandis, 1995).

As mentioned earlier, collectivistic individuals value relationships with their groups. Thus, a collectivist's sense of attachment is very pronounced. Favouritism shown by the superior towards the subordinates and the unquestioning loyalty displayed in return characterizes the ingroup relationship found in collectivistic societies. Hence, the next proposition [see Figure 2(c) for the summary argument]:

Proposition 4: Collectivistic individuals place greater emphasis on loyalty.

High Power Distance/Paternalism¹

Power distance is the extent to which the less powerful members of institutions and organizations within a society expect and accept that power is distributed unequally (Hofstede, 1991). Paternalism refers to a system in which superiors give favours to their subordinates in exchange for their *loyalty* (Husted, 1999). According to Bond (1991, pp. 86), such "granting of 'favours' is an important component of paternalism, as it builds a network of people tied to someone in authority out of indebtedness and obligation." This distribution of resources beyond the superior's normal responsibilities is possible because paternalism is highly pronounced in high power distance societies (Husted, 1999).

In high power distance organizations, the less powerful individuals have a high willingness to accept unequal distribution of power unquestioningly (Blunt, 1993). The employees are at ease with the paternalistic style of management and there is no strong felt need for them to be involved in decision making (Banks & Waisfisz,

¹ We assume high power distance and paternalism as concurrent phenomena and thus have used them interchangeably in this paper.

1994). They view organizational hierarchy as existential inequalities and expect to be told what to do by their superiors. In addition, their opinion of an ideal boss is a benevolent autocrat (Banks & Waisfisz, 1994; Hofstede, 1991). Hence, the superiors would have considerable discretionary power as they are seldom required to justify their decisions openly. Furthermore, there is a greater chance for mechanistic law to give way to human judgement (Bond, 1991).

One form of paternalistic behaviour present in high power distance societies is downward influence which can be observed in resource control, whereby individuals with control over key resources achieve the highest levels of control within an organization. Therefore, "power differentials" enable the actual, unequal distribution of resources to be legitimated (Earley, 1997, pp. 148). In such downward influencing tactics, both parties have strong obligations towards the concern and fulfillment of each other's interests (Chen, Farh & Tsui, 1998). Moreover, decisions are made based on the balance between favours and *loyalty* rather than merit (Husted, 1999). In paternalistic organizations, the preferential treatment shown by superiors to subordinates and the latter's obligation to return the favour is a characteristic behaviour of cronyism. In the process, *loyalty* is displayed as a valued obligation to the superiors.

In Chinese enterprises, those in positions of power and control allocate resources mostly according to their personal likes and dislikes (Cheng, 1999). In dealing with superiors, one tends to focus more on personal kinds of power tactics (Fairholm, 1993). Therefore, in order to cater to their individual agendas, subordinates may seek favours from those in key positions and provide personal attributes like loyalty to them in return. In this connection, Sinha (1996) commented that power within an ingroup flows freely without any resistance and that the more powerful person (the superior) shows love, affection, nurturance, and even takes the liberty to impose himself or herself in the interests of the loved and dependent persons (favoured subordinates). Further, the latter reciprocates by being personally loyal, dependent, and submissive. This reinforces the "unquestioning loyalty" that ingroup members are willing to display towards those in positions of power. In light of the above arguments, we propose as follows [see Figure 2(d) for the summary argument].

Proposition 5: High power distance/paternalism places greater emphasis on loyalty.

Stage Two Analysis

In this stage, we examine how two highly desirable behaviours in the Chinese culture (emphasis on loyalty and relations) lead to three immediate antecedents of cronyism (ingroup formation, overemphasis on relations, and overemphasis on loyalty). A summary of our arguments is presented in Figures 3(a) to 3(c). The detailed discussion is as follows.

Insert Figures 3(a) to 3(c) about here

Ingroup Formation

Cronyism is likely to occur whenever subjectivity based on personal preferences and relations is involved rather than an objective evaluation of ability. This is reflective of *personalism or particularism*, which is the tendency to allow personal criteria and relationships to enter into decision making and action (Redding, 1990). Since *relational personalism* begins with a distinction between ingroup and outgroup (Goodwin & Tang, 1996), we propose that the ingroup phenomenon is inherent in cronyism and classify it as an immediate antecedent of cronyism (see Figure 1). In this section, we discuss two major properties of ingroup phenomenon: *selection of ingroup members* and *ingroup bias* [see Figure 3(a) for the summary argument].

Selection of Ingroup Members

The concept of ingroup/outgroup has been illustrated by Graen and his associates (Dansereau, Graen & Haga, 1975; Graen & Cashman, 1975) in the vertical dyad linkage model of leadership, in which an individual's relationship to the workgroup is largely a function of the individual's association with an ingroup or outgroup. The

theory proposes that leaders develop relationships of varied degrees of closeness and distance with their subordinates. They usually establish special relationships with a small number of trusted subordinates (the ingroup), whom they pay relatively more attention to and less to their remaining subordinates (the outgroup); while the selection of the ingroup members is made on the basis of subordinate competence and dependability.

However, the vertical dyad linkage theory (a Western leadership theory) is instrumental in nature and emphasizes the exchange of mutual benefits between individuals, and the formation of ingroups is based on ability and mutual trust. In contrast, the Chinese model of leadership is influenced by *bao* (reciprocity) that has a considerable degree of affective content over and above instrumental content. Thus, in Chinese societies, ingroups are determined more by hierarchical status in social relations and *bao* (Liu, 1999).

Cheng (1999) contended that Chinese CEOs categorize their employees according to three criteria: (1) relation (*guanxi*) – i.e., whether they are ethnically related by kinship or parakinship, (2) loyalty (*zhongcheng*) – i.e., whether they possess unfailing loyalty and unreserved obedience to the CEO, and (3) competence (*chaineng*) – i.e., whether they can fulfill the goals assigned to them by their ability and motivation. The CEO's personal values or preferences would result in differential weighing of the three aspects (i.e., relation, loyalty, and competence) in employee categorization, and subsequently in dividing the employees into ingroups and outgroups.

In view of the Chinese leadership phenomenon mentioned above and our earlier discussion on the cultural values underlying the importance of relations and loyalty in cronyism, we propose that the selection of ingroup members is premised on *relation and loyalty*, i.e., given a choice between an employee who has close relation and high loyalty but low competence, and another employee who has high competence but distant relation and low loyalty, the former would be favoured and recognized as an ingroup member.

Proposition 6: Emphasis on ingroups in the Chinese culture, whereby relation and loyalty take precedence over one's ability and competence, is the major source of crony behaviour.

Ingroup Bias

Studies have suggested that the mere act of categorizing people as ingroups and outgroups tend to result in the favouritism of one's ingroup (Tajfel et al., 1971; Turner, Sachdev & Hogg, 1983). Indeed, due to this tendency to differentiate among subordinates (either knowingly or unknowingly), bias is inevitable and reflected in various organizational behaviours. In particular, superiors tend to be more human-relation oriented towards ingroup subordinates and more task-oriented towards outgroup subordinates (Cheng, 1999).

In addition, ingroup members enjoy considerable benefits while outgroup members are denied valuable opportunities (Vecchio, 1997). Graen and Cashman (1975) suggested that ingroup members are given high levels of trust, interaction, support and rewards; while outgroup members receive low levels of each. As the distinction between ingroups and outgroups is at the very root of people's consciousness, such preferential treatment of one's ingroup is seen as natural and sound (Hofstede, 1991).

Proposition 7: Crony behaviour is inevitable in an ingroup environment.

Overemphasis on Relations

As discussed earlier, both *Confucian values* and *lack of trust* give rise to *emphasis on relations*. The emphasis on relations results in the formation of strong ties among the Chinese. Such ties constitute a base of trust that can provide comfort in the face of uncertainty (Krackhardt, 1990). Therefore, following our discussion of Hofstede's relevant cultural dimensions under *emphasis on loyalty*, we highlight the role of

uncertainty avoidance in this section, suggesting how it can lead to an *overemphasis on relations*.

Uncertainty avoidance is defined as “the extent to which members of a culture feel threatened by uncertainty or unknown situations” (Hofstede, 1991, pp. 113). It reflects the level of ambiguity tolerance within a given culture. Thus, individuals in high uncertainty avoidance societies tend to feel more comfortable in a structured environment due to strong preferences for written rules and regulations (Hofstede, 1980). Hence, the emotional need for a proper institutional framework, if not satisfied, can result in the use of alternative obligation networks to fulfill that need. The Chinese society, in particular, is one where the role of relationships often surpasses that of formality (Yeung & Tung, 1996).

In organizational context, uncertainty avoidance relates to “formalization: the degree to which people feel the need for formal structure in the social or work environment” (Banks & Waisfisz, 1994, pp. 81). Organizations characterized by high uncertainty avoidance tend to be more resistant to changes, and there is a desire for neatly established organizational structures in which clearly expressed rules and regulations are carefully obeyed (Blunt, 1993). Thus, there is a preference for a proper institutional framework and a more transparent system in organizations.

In contrast, Chinese organizations are characterized by a lack of transparency. Management processes are neither clearly defined nor formalized. Employees’ responsibilities are often left unspecified and ambiguous (Redding, 1980). Furthermore, due to a general distrust towards outsiders, disclosure is low in organizations and company policies, decisions and plans are not openly shared and communicated to all. Hence, a lack of transparency results in the face of such ambiguity and poor disclosure.

In the context of “real” politics, the lack of transparency has been established as a tremendous contributing factor to corruption (Suite 101 Articles, 1998). Similarly, in the organizational context, uncertainty or ambiguity has been highlighted as one of the principal conditions under which political behaviour occurs (Ferris et al., 1993).

As we have identified cronyism to be one form of political behaviour, this phenomenon is likely to exist under lack of formality. Thus, when the need for a formal structure by organizational members cannot be met, they attempt to reduce the uncertainty they face through the maintenance of close relationships with key figures in the organizations.

In conclusion, high uncertainty avoidance along with lack of transparency and institutional framework causes an overemphasis on relations over time. Instead of relying on formal rules and procedures, organizational members often rely on the backdoor relationships they have established to achieve their agenda. Hence, the following proposition [see Figure 3(b) for the summary argument]:

Proposition 8: Overemphasis on relations (brought about over time by high uncertainty avoidance coupled with lack of transparency and institutional framework) leads to crony behaviour.

Overemphasis on Loyalty

After discussing how an *overemphasis on relations* can lead to cronyism, we explore the loyalty aspect in a similar fashion. In our view, although loyalty itself is a virtue or desirable behaviour, an overemphasis can lead to dysfunctional consequences.

Pye (1985, pp. 297) noted “the virtue of loyalty *unquestionably* enjoys a loftier position in the Chinese political system than it does in liberal Western politics...”. For the purpose of our study, we are more concerned with the dimensions of loyalty in the Chinese context, which encompass more than identification and internalization, the two Western dimensions identified by Becker et al. (1996).

Chen, Farh, and Tsui (1998) found that the dimensions of loyalty to supervisor in the Chinese context include indigenous Chinese dimension that reflect one’s personal attachment and gratitude towards the supervisor. In addition, Chinese societies are characterized by *personalism and paternalism*, suggesting that loyalty to supervisor

(person) rather than loyalty to organization (system) plays a more important role in driving employee behaviours (Redding, 1990).

To further explore the concept of loyalty, we extend the discussion to Chi's (1999) study of *chin-shins* (confidants) who hold special positions in their superiors' relational networks. *Chin-shins* are more than ingroup members; to be more exact, they are the 'core' of an ingroup. The relationship between *chin-shin* and superior goes beyond instrumental social exchange. A *chin-shin* perceives the superior as someone who deserves true-hearted gratitude and in turn demonstrates unreserved loyalty to the superior. Indeed, unreserved devotion and unswerving loyalty that are expected of employees are based on the link between *patronage* and gratitude (Cheng, 1999), where *patronage* is the act of dispensing favours to individuals regardless of their abilities (Redding & Baldwin, 1991).

We feel that the same principle is entrenched in cronyism. Cronies are tied in by bonds of obligation in which *patronage downwards and loyalty upwards* are exchanged. This explains why traits such as loyalty and "followership" are valued more than ability and competence in cronyism. At this point, it is important to highlight that loyalty has two dimensions, i.e., *the emotional aspect and the behavioural aspect* (Goman, 1991). Although the above literature regarding the demonstration of unswerving loyalty from the core of the ingroup due to true-hearted gratitude provides some support for the emotional aspect of loyalty in cronyism, we cannot overlook the role of the behavioural aspect.

Since emotions are invisible, Goman (1991) suggests that one's loyalty is often evaluated through the behavioural dimension. Hence, with an overemphasis placed on loyalty, whereby people are rewarded based on loyalty rather than ability and competence, individuals are encouraged to display loyalty (McGrath, Janssen & Hulme, 1995) in order to capture benefits such as favourable evaluations and more rapid promotions. Such projection of a favourable image to orient oneself to the achievement of desirable ends may be termed broadly as "*impression management*", which refers to the process by which individuals attempt to control the impression others have of them.

Indeed, one way to gain rewards or desired ends is to look as if one is enacting appropriate and desirable attributes and conforming to the preferences of supervisors (Turner, 1991). Thus, to elicit the desirable attribute of loyalty, individuals may adopt various impression management tactics such as ingratiation, generally defined as “an attempt by individuals to increase their attractiveness in the eyes of others” (Liden & Mitchell, 1988, pp. 572).

In view of the above discussion, we think that the ‘right amount’ of loyalty is a good thing. However, an overemphasis on loyalty perpetuates cronyism in organizational life. Hence, we propose as follows [see Figure 3(c) for the summary argument].

Proposition 9: Too much emphasis on loyalty leads to cronyism.

THE MODEL OF CRONYISM CONSEQUENCES

After presenting our model of cronyism antecedents, we discuss the impact of cronyism on organizational performance. We argue that cronyism has an impact on individual- and organizational-level outcomes. Our model of cronyism consequences is presented in Figure 4.

Insert Figure 4 about here

A simple exposition of our arguments is presented in Figures 5(a) to 5(b). Detailed arguments are as follows.

Insert Figure 5(a) to 5(b) about here

Individual-level Outcomes

In this section, we examine how differential treatment towards ingroup and outgroup subordinates by their supervisors impact on *satisfaction*, *commitment to the organization*, *morale*, and *output levels* of subordinates [see Figure 5(a) for the summary argument].

Satisfaction

Chinese organizations, being more informally managed and personalistic, provide a conducive environment for the evolution of ingroup relationships. As stated by Triandis et al. (1988), the distinction between ingroups and outgroups appears sharper in Chinese societies than in other societies. Being trusted assistants, ingroup employees in the Chinese organizations tend to develop a feeling of gratitude towards their superiors. Consequently, they are likely to be satisfied with their work due to the

existence of affectional bonds in their working relationships. On the other hand, as outgroup members perceive their relations with their superiors to be purely formal, their satisfaction is likely to be relatively lower (Cheng, 1999).

Bond and Hwang (1986) noted that ingroup members have more opportunities to be rewarded and in greater amount. In addition to performance, supervisors' decisions about pay raises for their subordinates are also influenced by non-performance factors such as organizational connections of their subordinates. Thus, subordinates with credible political connections, especially the ingroup members, are likely to receive higher pay increases than those without connections (Schoderbek & Deshpande, 1993).

In addition, promotion speed is faster for ingroup members than outgroup members (Cheng, 1999). Hence, for individuals that belong to an ingroup, their ingroup membership is likely to aid significantly to their career advancement, thus increasing their level of satisfaction. However, for outgroup employees who do not possess the essential connections, their level of satisfaction is likely to be lower because even if they are the "cream of the crop", their chances of climbing up the corporate ladder are slim. This has an adverse impact on their sense of self worth as they become stuck in organizations that require personal connections to "earn" promotions (Hurley, Fagenson-Eland & Sonnenfeld, 1997).

Proposition 10: Ingroup members would have higher satisfaction as they enjoy higher pay increases and faster promotions whereas for outgroup members who are not entitled to such benefits, their satisfaction level would be lower.

Commitment to the Organization

Commitment to the organization, also known as company loyalty, is influenced by the interactions between the collectivistic environment, organization, and employee. Those employees with collectivistic values commit to their organizations primarily

due to ties with their superiors (Boyacigiller & Adler, 1995). Commitment is related to organizational dependability or the extent to which an organization is perceived to be looking after the interests of its employees (Buchanan, 1974; Steers, 1977) in practices such as job security. Moreover, the employer-employee relationship in collectivistic cultures contains mutual obligations of protection and loyalty (Redding, Norman & Schlander, 1994).

Hence, as individuals are hired, allocated tasks, evaluated, and rewarded by their superiors, their allegiance would be leaning towards their superiors. This may result in the development of a deeper sense of obligation towards their superiors, which supercedes their attachment towards the organization, i.e., ingroup subordinates are likely to show low commitment to the organization. The emphasis on loyalty to supervisor to the exclusion of performance is highly dysfunctional as ingroup norms can run counter to organizational goals and hinder organizational success (Fink, 1992).

Due to ingroup bias, the efforts of outgroup members are often unrecognized by their supervisors. In addition, outgroup members do not experience the job security and desired rewards ingroup members enjoy. Therefore, outgroups are unlikely to show loyalty to their supervisors since they have no obligation to do so. Furthermore, due to the heavy politicking present in the organization, outgroup members are often overlooked in opportunities for personal achievement. While ingroup members are delegated key roles in the organization, outgroup members are merely assigned peripheral functions that are easily replaceable (Cheng, 1999). Hence, they are likely to show low commitment to the organization as it has failed to look after their interests.

Proposition 11: Ingroup members display high loyalty to supervisor but low commitment to the organization while outgroup members are neither committed to their supervisors nor to their organization.

Morale

Morale reflects the esprit de corps of a collective group of personalities (Benton, 1998). Since ingroup exchange has the characteristic of a partnership, the interaction between the supervisors and their subordinates is governed by interpersonal relationships rather than formal authority (Berry, 1998). Ingroup members are likely to experience high morale which results from the building of such personal relationships (Jenks, 1990). Their morale is also boosted by their ability to derive desirable outcomes (higher pay increases and faster promotions) from the deeper exchange relationships with their supervisors.

On the other hand, outgroup members only receive the standard benefits from the formal relationships with their superiors. The result of having such differentiated treatment can cause hostility between the two groups, thus adversely affecting their cooperation and sense of teamwork. Gradually, the level of relatedness between the ingroup and outgroup subordinates suffers as the unjustified practices continue (Yukl, 1989). Over time, the morale of the outgroup will be eroded by their feelings of alienation and inequity as favouritism of ingroup employees renders the relationship between performance and reward less obvious (Prendergast & Topel, 1993).

Proposition 12: Ingroup members have high morale but outgroup members have low morale.

Output Levels

The development of ingroup/outgroup relationships has a negative impact on the supervisors' objectivity in decision making (Zorn, 1995). According to Vecchio and Gobdel (1984), ingroup status is related to subjective ratings of performance. Hence, ingroup members often receive artificially inflated performance ratings. This implies that the perceived competence of ingroup members may be an effect rather than a cause to their assignment to the ingroup (Vecchio & Gobdel, 1984; Cardy & Dobbins, 1986). Thus, incompetence among ingroup members could be hidden and covered up

in the organization. Since ingroup members are rewarded on the basis of loyalty regardless of competence, they do not see the need to excel and may at best achieve average performance.

As for outgroup members (both competent and incompetent), their motivation to perform will taper off due to the inequitable and subjective reward system (Redding, 1990). Thus, they have no incentive to exert effort, which will in turn adversely affect their output level. Hence, we feel that cronyism is likely to result in detrimental effects on the output levels for both ingroup and outgroup members.

Proposition 13: Both ingroup and outgroup members would have low output levels.

To conclude, we do not negate the fact that there can be an alternative perspective concerning the impact of cronyism on individual-level outcomes. Although past literature seems to adopt a more favourable view that ingroup members have higher satisfaction, commitment to the organization, morale, and output level (Cheng, 1999; Vecchio, 1997), we feel that due to the politicization of reward systems, individuals simply need to portray the “right” attributes to achieve desired rewards, instead of relying on their abilities and competence. Thus, ingroup members need not necessarily be better performers. Moreover, as argued earlier, individuals are more inclined to display loyalty to their supervisors than to show commitment to their organization, as their supervisors are the ones who have direct influence on their rewards. Such emphasis on loyalty to supervisor may translate into negative organizational performance when the supervisors’ personal goals conflict with that of the organization.

Proposition 14: Following propositions 10-13, cronyism would have adverse impact on overall organizational performance.

Organizational-level Outcomes

After assessing the impact of cronyism on individual-level outcomes, we discuss the consequences of cronyism from a broader perspective by considering whether cronyism is able to foster organizational stability and adaptability. Literature on organizations has established these two elements as important contributors to the health of an organization and its growing capacity (Redding, 1996).

Organizational Stability

In the development of the antecedents model, we argue that the Chinese/Asian culture is especially pregnant with values conducive for crony behaviour. Two culturally rooted values, Confucianism and high power distance/paternalism, suggest that cronyism may provide stability to the organization and the members who control it. The Confucian doctrine, which acts as a framework for all relationships, is regarded useful in the sense of business *stability* (Evans, Hau & Sculli, 1995; Redding & Wong, 1986), as Confucian values support a centralized authority vested at the top (Vertinsky et al., 1995). On the dimension of power distance, Redding and Baldwin (1991) have noted that high power distance generally leads to a *stable* organizational structure, the subtleties of which are often visible *only* to its members. Indeed, due to the subordinates' *unquestioning* acceptance of unequal distribution of power (Blunt, 1993), the key personalities in control face little/no threat.

Organizational Adaptability

Although cronyism may provide internal organizational stability, the organization may not be able to adapt to changes readily. The over-reliance on personal relationships and loyalty without regard to competence can interfere with the objective pursuit of efficiency as emotional considerations cloud judgements (Lopez, 1995). Redding (1980) noted that the working of such personalistic relations cuts across the rational operation of the hierarchy. Porter (1996) also commented that

hidden personal agendas created may undermine a rational and objective approach to decision making, and in the worst cases, the strategic decision making may become a lottery of vested interests. Indeed, due to the overemphasis on conformity and a high level of incompetence, the growth of the organization and its full potential to adapt to changes may be restricted.

Thus, with respect to the issue of organizational stability and adaptability, cronyism serves to stabilize the organization, but at the same time, it imposes a constraint on the organization's ability to adapt to changes. Lockett (1993) further noted that the extensive use of connections in Chinese management undermines the functioning of the official resource allocation process. Although such undermining of legitimacy may ease some immediate management problems, it may have significant negative effects on organizational performance in the longer term. Thus, cronyism, if left unchecked, may result in organizational underperformance and decline. Indeed, the subordination of competency to loyalty and relations may result in the dreck at the bottom, rather than the cream, rising to the top (Bedeian & Armenakis, 1998). In light of the above discussion, we propose as follows [see Figure 5(b) for the summary argument].

Proposition 15: Cronyism may provide stability to the organization and the members who control it, but the organization may not be able to adapt to changes, and may at best achieve mediocre performance.

CONCLUSIONS

In this paper, we defined cronyism and developed propositions on antecedents of cronyism. The consequences of cronyism were then discussed. We presented a two-stage model to better our understanding of the antecedents of cronyism. The argument was that the four cultural values, Confucianism, lack of trust, collectivism, and high power distance/paternalism, give rise to two desirable behaviours, loyalty and relations. These two desirable behaviours in turn lead to three antecedents of cronyism: formation of strong ingroups, overemphasis on relations, and overemphasis

on loyalty. A cultural perspective was adopted in this model to provide an analysis regarding the interplay of various factors that give rise to cronyism. Although culture forms the underlying basis of the model, we are not implying that culture can solely explain cronyism, but rather, we are suggesting that certain cultural values can magnify this behaviour.

In the model on consequences of cronyism, we argue that cronyism would impact on individual- and organizational-level outcomes, which would in turn affect organizational performance. From the ingroup member's perspective, cronyism may be desirable as it entails higher pay increases and faster promotion. However, organizational performance may be in jeopardy once cronyism penetrates the organization.

The reciprocal relationship between the superior and his or her cronies/ingroup members has been developed throughout this paper. To achieve desired rewards, crony members exhibit attributes their superiors favour. Despite being able to obtain their desired ends, we feel that cronies do not necessarily perform better than non-cronies. This is because the former could be compelled to display crony behaviours like loyalty in order to get recognized due to the realization that they probably would not achieve desired rewards simply by relying on their competence or rather, the lack of it alone. Thus, it is possible that cronies display behavioural loyalty, which draws from the intention to impress, rather than genuine loyalty, which draws from unconditional emotional devotion. Hence, in our view, there is a trade-off between loyalty and competence in cronyism.

We believe that cronyism is essentially an unintended consequence of senior management's need/imperative for control. As superiors have the power to allocate resources, this allows them to build a sense of indebtedness and obligation among the ingroup members they have granted favours to. However, the over-reliance on personalistic ties without regard to competence causes a serious deficiency in the organization's ability to adapt to its external environment. Indeed, it would be interesting to examine alternative control mechanisms that may enhance control without the trade-off we see in cronyism.

An interesting and challenging extension of our research is to examine the antecedents and consequences of cronyism empirically. In this way, organizational researchers can either confirm or falsify the models of cronyism presented here. Through the modification of our models or proposal of new ones, we hope to develop a greater understanding of this important and prevalent phenomenon. This would help to gain a better insight into the relational complexities behind the formal organization and the need to contain the undesirable effects of cronyism.

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APPENDIX

FIGURE 1: THE CONCEPTUAL MODEL OF CRONYISM: ANTECEDENTS

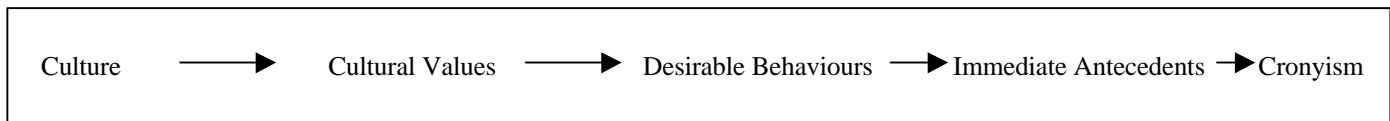
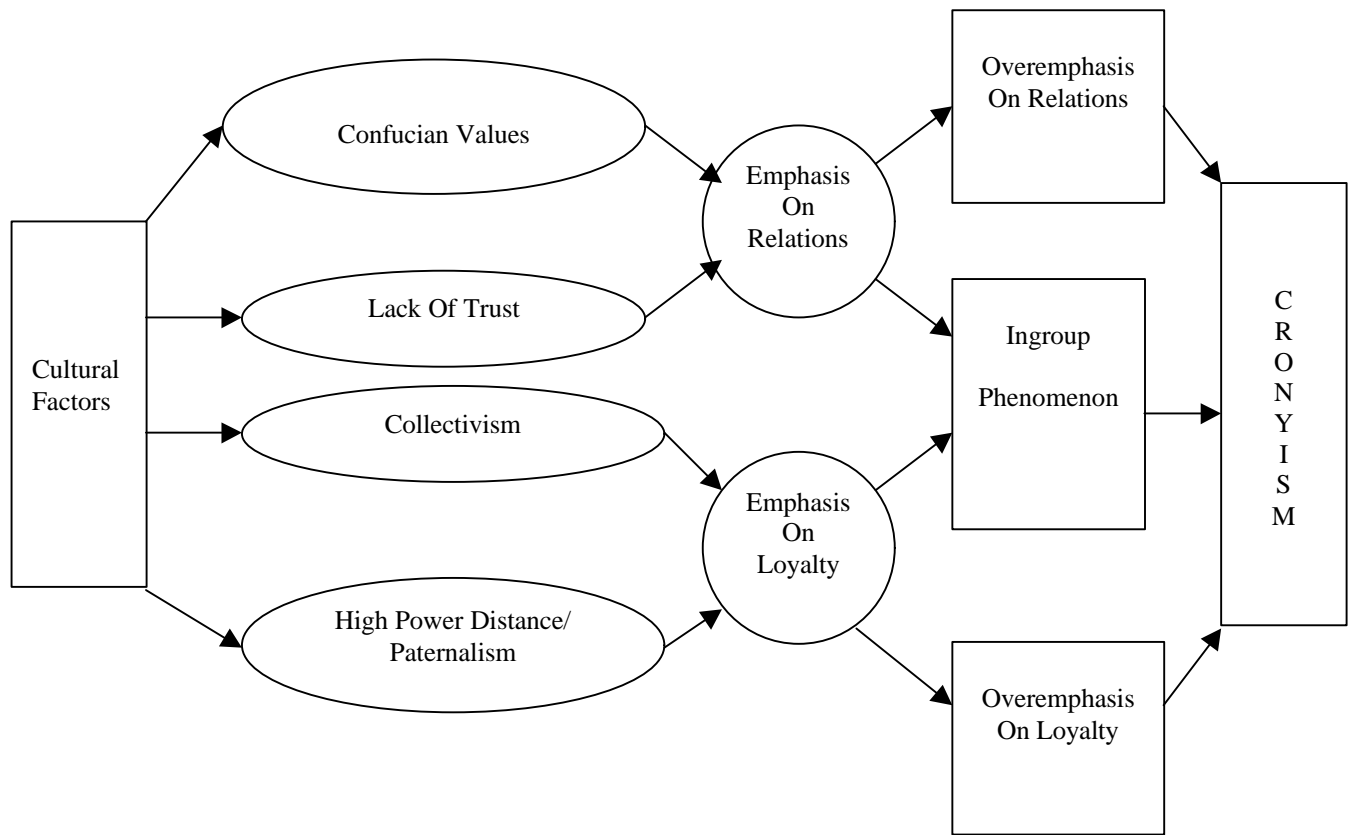
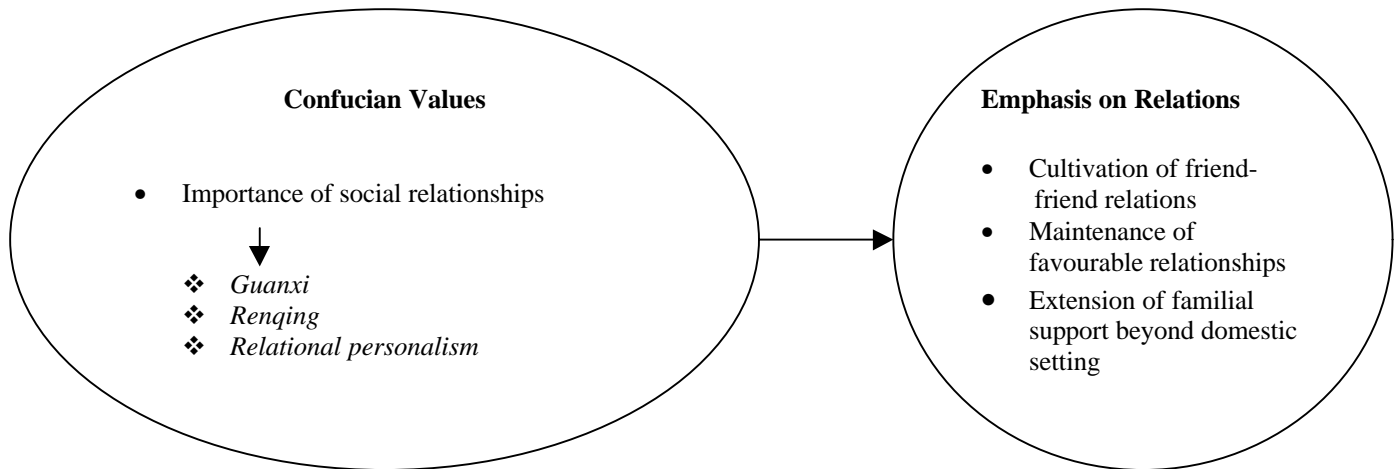
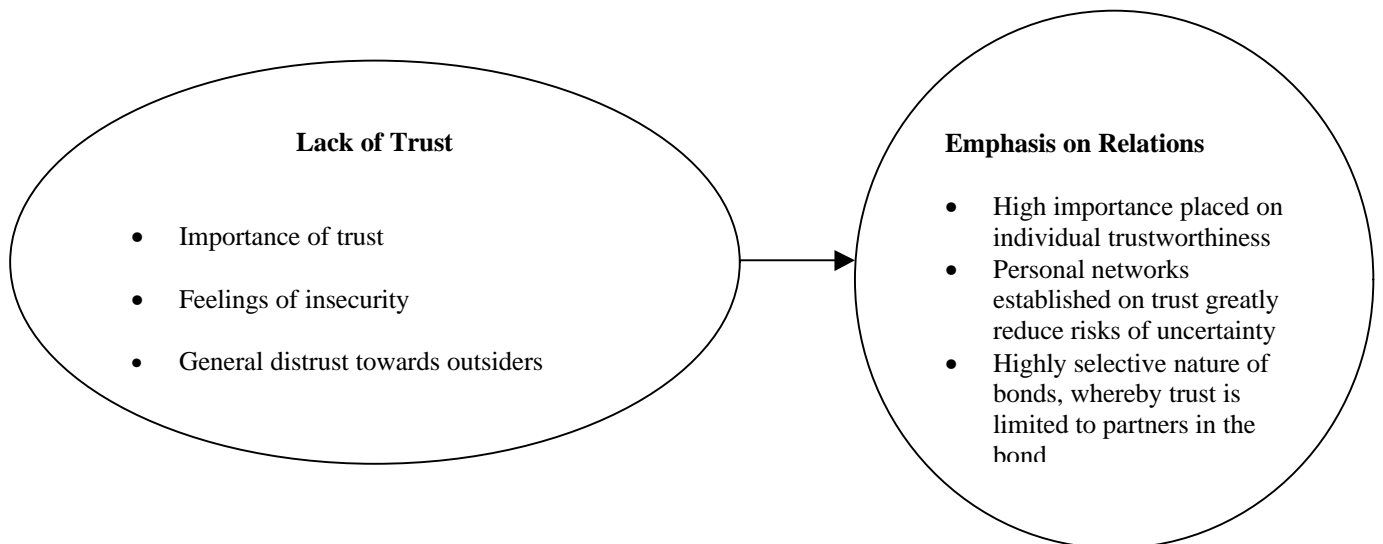


FIGURE 2: AN IN-DEPTH ANALYSIS OF THE LINKAGE BETWEEN CULTURAL VALUES AND DESIRABLE BEHAVIOURS

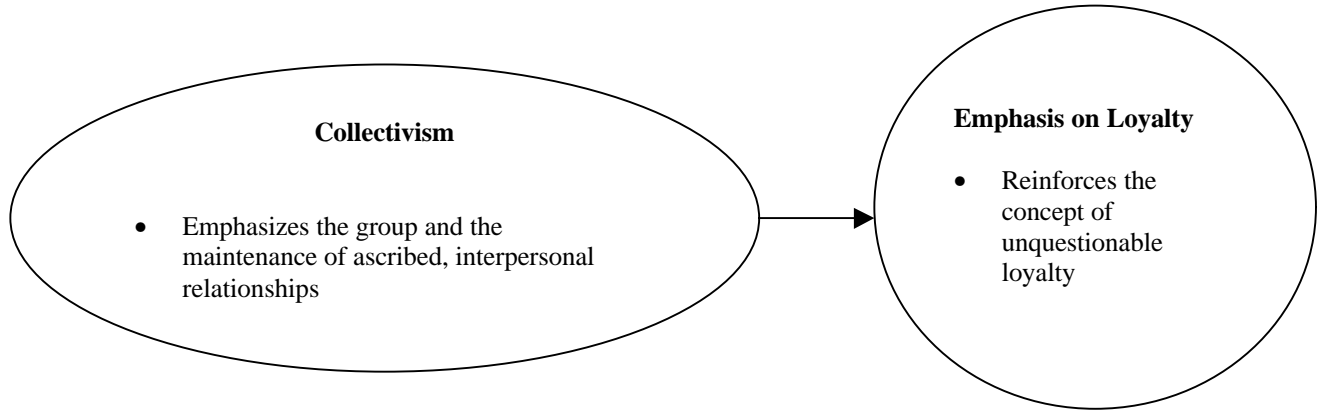
- Figure 2(a) Confucian Values → Emphasis on Relations



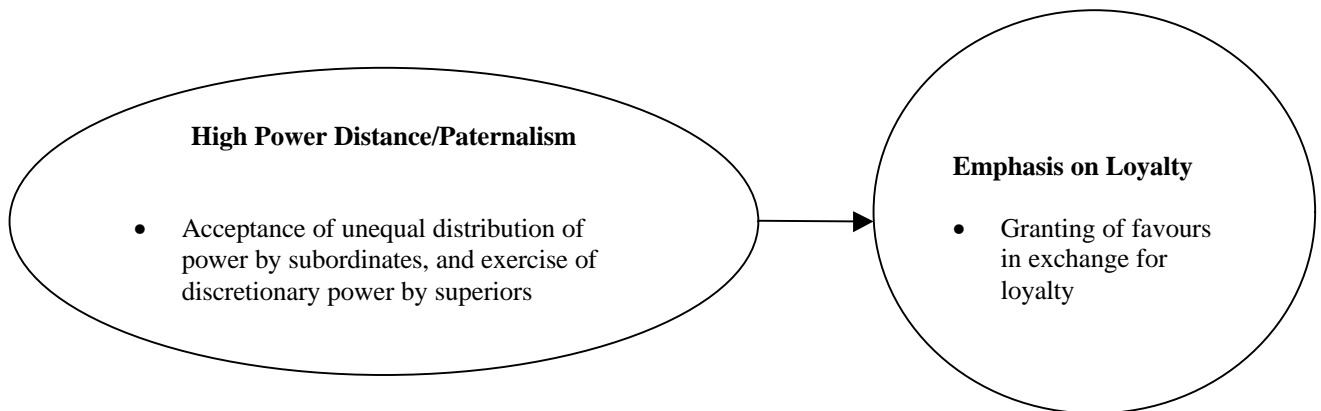
- Figure 2(b) Lack of Trust → Emphasis on Relations



- Figure 2(c) Collectivism → Emphasis on Loyalty

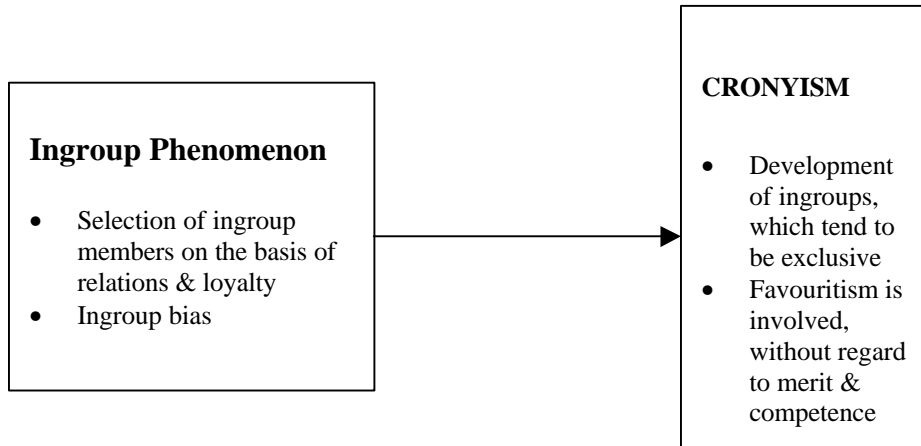


- Figure 2(d) High Power Distance/Paternalism → Emphasis on Loyalty

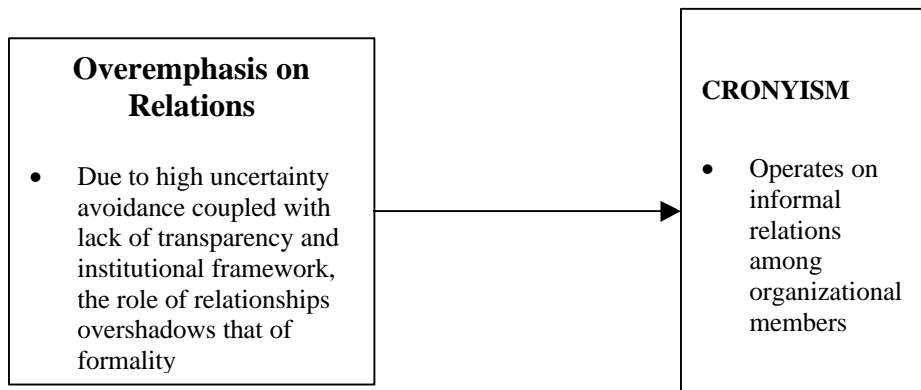


**FIGURE 3: AN IN-DEPTH ANALYSIS OF THE LINKAGE BETWEEN
IMMEDIATE ANTECEDENTS AND CRONYISM**

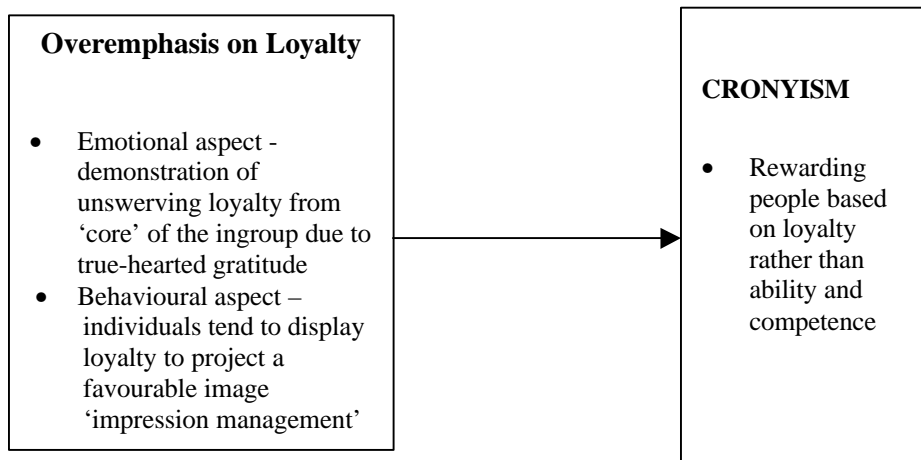
- Figure 3(a) Ingroup Phenomenon → Cronyism



- Figure 3(b) Overemphasis on Relations → Cronyism



- Figure 3(c) Overemphasis on Loyalty → Cronyism



**FIGURE 4: THE CONCEPTUAL MODEL OF CRONYISM:
CONSEQUENCES**

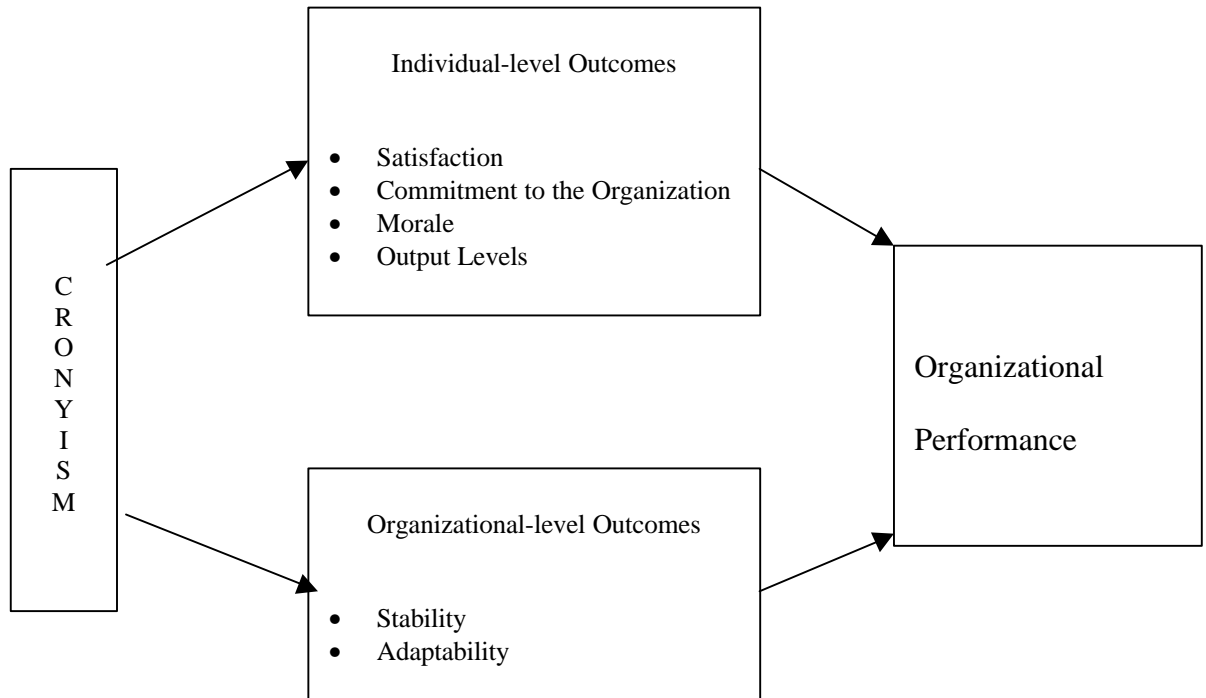
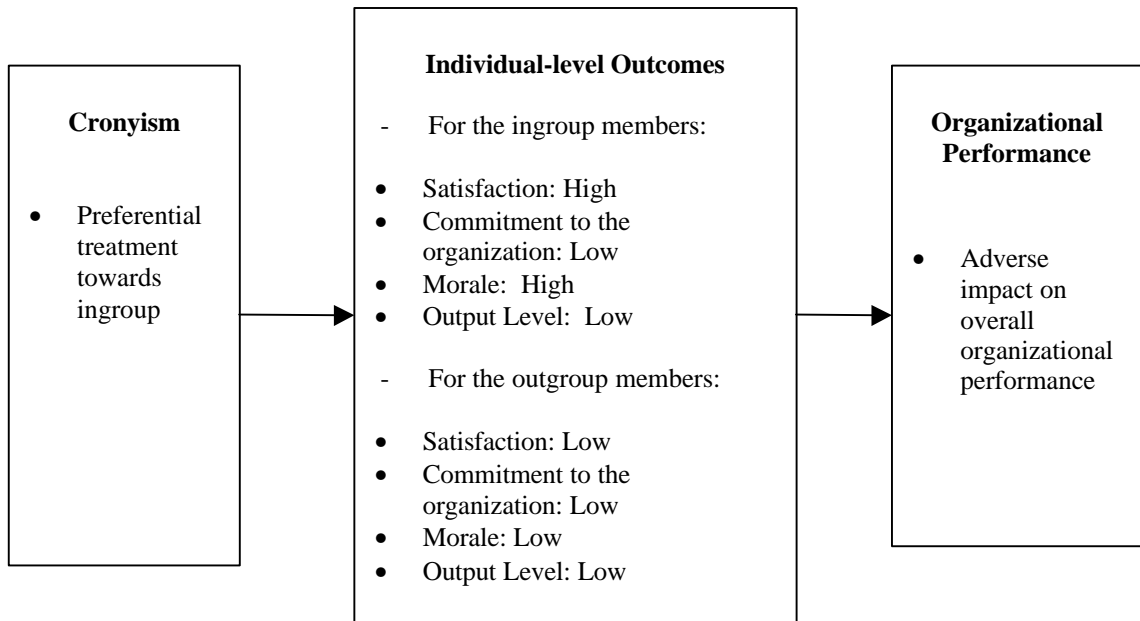


FIGURE 5: AN IN-DEPTH ANALYSIS OF THE CONSEQUENCES FRAMEWORK

- Figure 5(a) Cronyism → Individual-level Outcomes → Organizational Performance



- Figure 5(b)

- Cronyism → Organizational-level Outcomes → Organizational Performance

