

# **Connections, Contracts and Sanctions: Informal Commercial Contracting Among Chinese in Metro Manila**

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## **Abstract**

Do Chinese merchants in contemporary Philippines still practice personalistic engagement in business? As a primarily descriptive study, we focus on the Chinese in Metro Manila and look at features of informal contracting as premised in personalistic ties among Chinese involved in business. Operationalizing a qualitative investigation, we utilize survey research as well as in-depth key-informant interviews and attempt to explore informal contracting through the nuances that include the types of business connections, reasons for engaging in informal contracts, use and dominance of contract types, factors that deter contract violations and sanctions against connections who violate informal agreements.

**Keywords:** informal contracting, personalistic ties, Chinese in the Philippines

## **Research Context and Design**

We begin with a simple question, “Do Chinese merchants in contemporary Philippines still practice personalistic engagement in business?” Categorical as it may seem, the answer requires a complex investigation. Chinese personalistic ties in informal contracts have been problematized in multidisciplinary analyses in the social sciences, business research, and studies on the overseas Chinese. This descriptive research

focuses on informal contracting among the Chinese in the Philippines to elucidate, in a structured manner, the three key aspects in such contracting: ethnic particularization; the use of informal contracts; and the sanction feature in an agreement.

The commercial role that ethnic Chinese minorities play in different host societies has generated considerable research interest in regard to factors that contribute to success, business practices, and the sociocultural, economic, and political contexts wherein such practices are observed. Within this voluminous literature, the study of informal contracting begins from the exploration of group solidarity and the use of personalistic ties among Chinese merchants. Bonacich (1973) for instance, builds a framework that explains the dynamic among various factors that affect the persistence of middleman minority status. That is, group solidarity interacts with such factors as immigrant orientation, host hostility, economic position, and homeland condition. Landa (1981, 1999), on the other hand, builds a model on the ethnically homogeneous merchant group (EHGM) and elucidates ethnic cooperation as a factor in merchant success.

The study is significant for academic and policy research as it looks at features of institutional change through the dynamics of informal contracting. Moreover, this research enriches the understanding of the interconnectedness between Filipinos and Chinese within the process of integration in Philippine society. It makes use of a structured questionnaire and in-depth interviews with key informants, both constructed and distributed in accordance to a flexible and iterative sampling strategy.

The outline of discussion is straightforward. The rest of this section focuses on the methodology, data, and investigation process. The next four sections discuss the results of the survey research and in-depth interviews through the profile of respondents and their commercial engagement; the type of informal business connections, contract types, and sanctions for contract violations. The paper ends with concluding remarks.

## Methodology, data and the investigation process

Answering the research question entailed gathering detailed information from Chinese in Metro Manila who are engaged in business, using a descriptive research design that drew from both quantitative and qualitative approaches. “Chinese” pertains to persons in the Philippines who self-identify as Chinese by heritage regardless of citizenship, ethnicity, country of origin and other demographic characteristics. Data was collected through two methods. First was through a survey based on a structured questionnaire. Second was through Key Informant Interviews (KII), which were based on open-ended questions intended to draw out detailed features of informal contracting. In the context of both a quantitative and qualitative investigation framework, we employed a flexible research design that considered sampling, data collection, analysis, and interpretation in an iterative process. The research was divided into four stages as discussed below.

*Preparing the questionnaire instrument and gatekeeper consultations.* In this stage, the construction of the draft questionnaire and consultations with gatekeepers were carried out. Gatekeepers are go-betweens who are trusted by a network of respondents as well as by the investigators. The objective of the consultations was to derive initial feedback regarding data collection from Chinese in the Philippines. Considering the hesitance of respondents in revealing information on commercial operations, the study also involved gatekeepers. The researchers sought such individuals from the Chinese-Filipino association, Kaisa para sa Kaunlaran (KAISA), although they were also connected to different Chinese in Metro Manila. In addition, two gatekeepers were Chinese-Filipinos who attended Chinese schools in Metro Manila before they pursued university education.

*Setting up the questionnaire in several modalities.* The outcome of the consultations served as input to the finalization of the research design. The structured questionnaire was adjusted so that it can be transmitted through primary and secondary modalities. The first modality was a printed questionnaire, while the secondary modalities were an online poll constructed through Google Forms and a questionnaire sent as an email

attachment. The different modalities addressed distribution, response, and collection efficiency as well as the respondents' preferences for anonymity and technology.

*Initial processing of survey results.* It must be emphasized that while processing the results yielded patterns drawn from categorical responses, the objective of this stage was not so much to prove causalities or confirm pre-determined hypothesis as to draw detailed insights as inputs into understanding the textured commercial relationships among the Chinese. These in turn served as valuable information in considering the direction of the in-depth interviews.

*Setting up, conducting and initial processing of the Key Informant Interviews.* The Key Informant Interview (KII) is an in-depth interview wherein the questions that are fielded are open-ended. The interview instrument is made up of a short list of queries that were provided to informants days before the interview. While the list of questions is short, the investigators exercised leeway in asking follow-up questions as needed. The KIIs were conducted with the gatekeeper.

*Analyzing the data.* In the last stage, we applied coding categories in processing survey content and organized the data into descriptive numerical indicators. On the other hand, content from the KIIs were likewise coded and organized thematically. The investigators were then able to draw out patterns across quantitative indicators and juxtaposed qualitative details from the KII content while also engaging the literature.

## **Profile of respondents and their commercial engagement**

### **Questionnaire Respondents**

Among the 56 respondents, 31 are 30 to 44 years old (see Table 1) while 16 are 55 to 64 years of age. The survey participants are generally second- to fourth-generation Chinese-Filipinos. Fourteen participants have a parent who was the first to arrive in the country, while 37 respondents have a grandparent or great grandparent who decided to settle in the

Philippines. Only two individuals have families that have been in the Philippines for more than five generations.

TABLE 1: Age range and number of generations removed from Chinese ancestor

Age Range	Frequency	Number of Generations Removed	Frequency
15–19	1	1	14
25–29	2	2	21
30–34	5	3	16
35–39	20	4	3
40–44	6	5	2
45–49	3	TOTAL	56
50–54	3		
55–59	6		
60–64	6		
65–68	4		
TOTAL	56		

Except for one individual, all respondents listed the Philippines as their place of birth. Out of 56 respondents, 35 are Filipino citizens by birth while 20 are naturalized. Only a single Philippine-born respondent does not have Filipino citizenship and has remained a Taiwanese national. Half of all naturalized respondents received citizenship in the 1970s (see Table 2). This is not surprising considering that the ethnic Chinese benefited from the action of then President Marcos to do away with anti-foreign policies and simplify the naturalization process for foreign residents during the Martial Law years, particularly in 1975 (Dannhauser 2004). Sixteen naturalized respondents are 50 years old and older.

TABLE 2: Period when naturalized respondents received Filipino citizenship and age range of respondents

Period	Frequency	Age Range	Frequency
1950s	2	25–29	1
1960s	3	30–34	0
1970s	11	35–39	2
1980s	2	40–44	1
1990s	1	50–54	1
NA	1	55–59	6
TOTAL	20	60–64	5
		65–68	4
		TOTAL	20

As shown in Table 3, 22 of the Metro Manila respondents are based in Quezon City. There are 15 Manila-based respondents while seven reside in San Juan City. Fifty-two out of 56 individuals indicated that they spoke Hokkien/Fukien as their primary language, as opposed to about two who reported Mandarin as their primary language. It should be noted that two respondents also listed both languages as their mother tongue. This supports previous studies on Chinese-Filipinos, which indicate that majority of the said group's members trace their ancestry to Fujian Province in China where the Hokkien/Fukien dialect is spoken (Amyot 1973; Dannhaeuser 2004).

TABLE 3: Respondents' place of residence

Residence	Frequency
Antipolo	1
Cainta	1
Makati	1
Manila	15
Muntinlupa	1
Pasay	1
Pasig	3
Paranaque	3
Quezon City	22
San Juan	7
Valenzuela	1
Total	56

In addition, seven individuals of varying ages and commercial engagements participated in this study as key informants in separate in-depth interviews. Key Informant 1 (Trader hereafter) trades general merchandise. Key Informant 2 (Land Management Executive hereafter) is engaged in land management and real estate. Key Informant 3 (Banker hereafter) works in the banking industry. Key Informant 4 (Insurance Executive) operates an insurance business. Key Informant 5 (Leather Goods Trader hereafter) operates a store that sells leather goods. Key Informant 6 (Jeweler hereafter) crafts and sells jewelry. Key Informant 7 (The Baker) sells various baked goods.

## Business Characteristics

Many studies and articles that delve into the entrepreneurial spirit of the overseas Chinese in the Philippines describe them as owners of businesses of varying types and scales that are involved in commodities trading (retail and wholesale), light manufacturing, food processing, warehousing, and even finance (Amyot 1973; Omohundro 1983; Cullather 1994; Chua 2004; Dannhaeuser 2004). Table 4 presents data on respondents' business types. Twenty-six are in trading and 12 are in manufacturing. The rest are spread across 13 other commercial activities. Twenty-one out of 56 survey participants have been involved in the specified business or businesses for not more than 10 years, while 39 have enterprises that are not more than 15 years.

The length of operation of many of these establishments is consistent with the age profile of a majority of those who participated in the study. The table also shows that nearly half of the respondents' businesses do not have more than 20 hired personnel. In fact, only five individuals noted that their business had more than 100 employees while seventeen did not state the number of workers in their enterprise. Nondisclosure is consistent with the documented pattern of Chinese-Filipinos in withholding details of their personal and commercial concerns (Omohundro 1973; "A Survey of Chinese Business" 2001).

## Types of Connections

Chinese-Filipino merchants perceive that connections and relations with family members and kinsmen contribute to the advancement of one's business (Omohundro 1983). Following this, it is not surprising that relationships established through marriage are deftly employed as a "resource for commercial manipulation" (Dannhaeuser 2004, 4). Among key informants, all but two inherited their family's business or joined an enterprise affiliated with or similar to that of their parents or grandparents. The Trader entered her sister and in-law's trading business that was affiliated with that of her father. She did not only please her father but also enjoyed the advantage

TABLE 4: Business Characteristics: Business Type, Longevity and Number of Employees

Type of Business	Frequency	Years in Business	Frequency	Number of Employees	Frequency
Auto Detailing	1	1–5	13	0–20	26
Banking/ Financial Services	3	6–10	8	21–50	5
Construction	1	11–15	8	51–100	3
Fabrication	1	16–20	7	101–300	5
Information Technology	3	21–25	5	Unanswered	17
Land Management	1	26–30	7	TOTAL	56
Manufacturing	12	31–35	1		
Mining	1	36–40	4		
Real Estate	3	41–45	0		
Retail	1	60	1		
Services	3	N/A	2		
Trading	26	TOTAL	56		
Travel	1				
Business type not indicated (i.e. employee)	1				
NA	2				

of an “infinite credit line,” dispensing with the need for *puhunan* or capital (KI1 2013). Some lived up to expectations and joined the family’s business. The Insurance Executive became part of his grandfather’s insurance business in Binondo right after college graduation, and his only son is now the enterprise’s fourth generation member (KI4 2013). The Leather Goods Trader, on the other hand, now manages the leather goods trading shop

established by his grandfather before World War II not only because it was expected of him but he also wanted to continue a family tradition (KI5 2013). However, the types of connections that Chinese merchants keep tell a more nuanced story.

### Types of Business Connections

In this research, informal business relationships include (but are not limited to) transactions such as supplier and credit agreements that are based on trust, without legally binding contracts. Persons that respondents engage with in this context are referred to as informal connections, associates, contacts or partners. The respondents maintained a wide range of types of informal business connections (Table 5). Out of 56 respondents, Chinese referred by someone close (42) and Chinese belonging to an informal group (41) are the first and second most frequent types of connections. Curiously, Chinese members of the immediate family only come third (37).

Chinese in the immediate family is the most preferred informal business connection with 18 respondents ranking it first. Chinese in the extended family is ranked second (10), while Chinese referred by someone close and non-Chinese godparent/non-Chinese referred by a close contact are jointly ranked third (6). The aforementioned non-Chinese persons are even more preferred than Chinese contacts other than those in the immediate and extended family and referred by a close connection (see Table 5).

Among the key informants, partiality towards fellow Chinese was rarely explicitly stated. Five out of seven informants revealed that working with customers, suppliers, and business partners was not contingent on their ethnicity (see Appendix 3, Item c). This supports the decreased importance of ethnicity in forging business relations and networks among younger-generation Chinese as argued by both Amyot (1973) and Menkhoff and Labig (1996). In part, the key informants shared that their selection of connections was influenced by concerns

TABLE 5: Types of informal business connections of respondents  
and preferred informal connections

Business Relations	Frequency	Frequency
	Informal Connection	Top 3 Preferred Informal Connection
a. Chinese referred by someone close	42	6 (3 <sup>rd</sup> )
b. Chinese in informal group (e.g. barkada, former classmates)	41	
c. Chinese in immediate family	37	18 (1 <sup>st</sup> )
d. Chinese in extended family	36	10 (2 <sup>nd</sup> )
e. Chinese in-laws (e.g. parent-in-law, sibling-in-law)	34	
f. Chinese in same language group	35	
g. Non-Chinese godparent or “kumpadre” or referred to you by someone close to you	28	6 (3 <sup>rd</sup> )
h. Chinese in socio-civic organization (e.g. charitable institutions)	24	
i. Chinese in different language group	23	
j. Other non-Chinese	22	
k. Chinese from the same village/town in China	21	
l. Chinese in a business group (e.g. Chamber of Commerce)	19	

that are particular to their respective businesses. The Land Management Executive revealed that he would rather select a connection on the basis of performance, reliability, or the cost of the service than on the said person's ethnicity. However, he still considers the inclinations of his boss, a first-generation Chinese, who prefers Chinese partners, especially in more sensitive company concerns such as legal and

accounting-related matters. He adds that he has been able to get Filipino individuals and companies as suppliers or service providers for non-sensitive matters on the basis of quality and cost of service (KI2 2013). Similarly, the Baker tries to maintain business relations with the children or relatives of his father's long-time Chinese and Filipino suppliers, but he would encourage them to keep prices at a competitive level and keep supply easily accessible (KI7 2013).

Among the respondents, only the Trader was explicit in her preference for Chinese partners, especially Hokkien-speakers. Her partiality stems from past experience that Chinese people "still look out for your interest more if you are also Chinese." She also said that talking to someone in Chinese makes it easier to explain things. In addition, those who speak Hokkien are usually people whom she has known for a long time, such as former classmates. She noted past instances of being cheated by non-Chinese while not experiencing the same from Chinese connections (KI1 2013).

Preferences show that kinship is still valued in the context of Landa's (1983) "seven grades of trading partners." But the results from the survey and key informants resonate with what was observed decades ago in the works of Amyot (1973) and Hodder (1996) that ethnic Chinese in the Philippines are increasingly relying on their long, personal relationships but established non-kin networks with respect to cooperative endeavors in business. In other words, connection possibilities have expanded beyond close Chinese contacts. Further, akin to Hodder's (1996) findings, Chinese-Filipinos are no longer so keen on looking for potential business connections in chambers of commerce and other types of formal associations.

### **Connections in the Trading and Manufacturing sectors**

Respondents in the trading sector most frequently do business with Chinese in the immediate family (22) (Table 6). The second most frequent connection is Chinese referred by close connections (21) and Chinese from one's informal group (21). Those in manufacturing most

frequently deal with Chinese in the immediate (9) and extended family (9) as well as Chinese in-laws (9), while Chinese who spoke the same language and were referred by close associates are the second most used connections. Results for these sectors show how the general pattern is confirmed. But future sector-specific research can investigate how the nuances correspond with particularities in the business environment of the sectors.

**TABLE 6: Frequency of actual business connections of those in the manufacturing and trading sectors**

Business Connection	Trading (26)	Manufacturing (12)
a. Chinese in immediate family	22	9
b. Chinese referred by close connection	21	6
c. Chinese in informal group	21	7
d. Chinese in same language group	19	7
e. Chinese in extended family	18	9
f. Chinese in-law	18	9
g. Non-Chinese godparent or “kumpadre” or referred by someone close to you	16	5
h. Chinese in sociocivic group	15	5
i. Chinese in different language group	14	6
j. Chinese from same village/town in China	12	6
k. Chinese in business group	12	5
l. Other non-Chinese	10	4

## Building Networks of Connections

Similarly, nearly all key informants mentioned that they initially inherited business networks and connections through the enterprises that they joined (see Appendix 3, Item f). One informant remarked, “even enemies were inherited” (KI1 2013). All respondents intimated, however, that they actively built on the connections they received by developing their own networks over time. The Banker had to work on a portfolio of clients from the bank (KI3 2013). The Land Management Executive, who used to have his own business until the aftermath of Typhoon Ketsana, used his connections with a former classmate to get a job in the latter’s family corporation and is the only one who did not inherit any connections in the current company (KI2 2013).

Some key informants were also partial towards potential associates referred by close connections (see Appendix 3, Item g). The Leather Goods Trader credits his current client base to the referrals made by his family, relatives as well as close friends from high school and college whose familiarity with his business allows them to recognize his needs and what he could offer (KI5 2013). Similarly, while the Insurance Executive admits to be picky in approaching potential clients (“If I don’t like you, I don’t ask you.”), he also primarily gets his referrals from family and then from his mostly Chinese friends (KI4 2013). This partiality towards close friends or what can be considered as *barkada* or *near others* (Mulder 1997) (i.e. long-time classmates) also supports Amyot’s (1973) contention that while they prefer to deal with their family and kin, younger generation Chinese seem more willing to associate as well with non-kin in business endeavors.

Hodder (1996), in his study of Chinese merchants in Davao, Philippines, found that formal organizations and family associations were not considered integral to business success. In like manner, all key informants were not eager to join associations or business groups in order to seek potential business connections (see Appendix 3, Item e). The Baker observed that some join associations “just to know people” and that such organizations

do not seem attractive to younger and more educated businessmen (KI3 2013). Only the Trader and Baker, both of whom are between their 50s and 60s, have joined a packaging and bakery association, respectively, but claim to be inactive. The Trader remarked that participation in such associations is time consuming (KI1 2013; KI7 2013). The Land Management Executive politely declined invites to join several organizations (KI2 2013). While the Insurance Executive never joined any group, he admits that his 87-year old father's active participation in the latter's school and family associations have led to recommendations (KI4 2013). This complements the Baker's observation that formal organizations and associations are still useful for older merchants (KI3 2013).

Some informants believe that long-term relationships among business partners and associates are no longer as stable as those that were forged by older-generation Chinese. According to the Banker, it is now more difficult for her to keep her younger banking clients. She believes that perhaps because of their more western orientation (see Appendix 2, Item a), some are always on the lookout for better terms from other institutions (KI3 2013).

### Reasons for Changing Patterns of Connections

Notwithstanding differences, the preferences for connections among all respondents as well as those in specific sectors fall within the general pattern. However, the existing preferred and actual connections and differences between the two are noteworthy and can be attributed to changing conditions in the socioeconomic and institutional environment: improving immigrant and assimilation conditions, resource access and institutions (Wijaya 2008); the exposure to education, ideas, and practices (Menkhoff and Labig 1996).

The expanding space of commercial transactions may have also resulted in business particularities becoming more defined over time. For instance, based on a study on Taiwan and mainland China, personalistic ties and relational demography (e.g. age, gender, race) matter among superior-subordinate (or vertical) ties while only the former are

significant among similarly ranked executives (or horizontal) ties (Farh, Tsui, Xin and Cheng 1998). In the case of business specificities among the informants' ventures, the Jeweler shared that since his business is involved in the sale of jewelry where majority of his clients are coethnics even if he does not prefer the former over a non-Chinese. He did admit, however, that dealing with a non-Chinese would require a referral from one of his clients (KI6 2013). The Banker, on the other hand, noted that in her line of work, rather than a person's ethnicity, it is "the reputation of the client in the industry that matters" (KI3 2013). The Leather Goods Trader also mentioned that he has no clear ethnic preference with respect to suppliers or customers since he cannot afford the luxury to be choosy in his line of business (KI5 2013). The Insurance Executive mentioned that the ethnic composition of their staff has changed over the years but not necessarily because of any conscious effort to hire non-Chinese. While he primarily hires people based on competence, his grandfather was partial towards Chinese applicants. But as the years passed, very few ethnic Chinese found the pay in their company attractive. This led to the decision to hire Chinese *mestizos*, persons of mixed Chinese ancestry. Presently, an applicant's ethnicity no longer matters (KI4 2013).

For the Baker, the intense competition compels him to gravitate towards individuals and companies with fresh ideas. Such partiality leads to more business dynamism, unlike before when his father focused on just one product and had a tendency to stick with his tried-and-tested suppliers. The tendency of ethnic solidarity to limit the pool of human capital is likewise asserted by Haley, G., Haley, U. and Tan (2009) and Lim (1983) who point out that more business expansion and the increase in sophistication in economic activities require commercial relationships that go beyond kinship and ethnic lines. However, this does not necessarily contradict the fact that ethnic connections drive international commercial networks and inter-firm and firm-bureaucracy links (Yeung 1997). The Baker believes that the younger generation will likely have business mindsets that are different from their parents, implying that one should always adjust to changing contexts (KI7 2013). This corroborates the

perception of most key informants that the preferences of the younger generation Chinese are different from that of their elders (see Appendix 1, Item c).

### **Utilization of Informal and Formal Contracts**

According to the survey results, we find that 40 out of 56 respondents use both formal and informal contracts in their dealings. Eight respondents use only informal contracts while a similar number exclusively use formal contracts. Among those who resorted to both formal and informal contracting, 17 used informal contracts more, 20 had used formal contracts more dominantly while 19 used both contract types equally.

#### **Why Use Informal Contracts?**

The survey results illustrate that the reasons for entering into informal agreements are not homogenous. Table 7 illustrates that 36 out of 56 respondents engage in informal contracts for the reason that they only enter into business dealings with people whom they deem trustworthy and reliable. Securing better terms (27) in the transaction is the second most frequent reason for entering into informal contracts. The belief that formal contracts do not ensure the enforcement of agreements (22) is the third most frequently listed reason.

The Leather Goods Trader, Jeweler, and Baker reveal that they engage in informal contracting (Appendix 3, Item h). The Jeweler mentioned that all his transactions are settled verbally vis-à-vis using “black and white paper” since the foundation of his business network is based on trust (KI6 2013). The Baker, on the other hand, emphasized how contracts are quickly forged through informal agreements. (KI7 2013). The Leather Goods Trader said that informal contracting, which depends greatly on the familiarity and relationship of both parties, has allowed him to have access to better credit conditions and quality products at lower prices (KI5 2013). Similar to the Jeweler, he also remarked that word of honor was very much employed in his line of business

(KI5 2013). These accounts are key features of Chinese-Filipino cooperativism (Amyot 1973).

TABLE 7: Reasons for engaging in informal contracts

Why Use Informal Contracts?	Frequency
a. I only enter into business transactions with individuals whose trustworthiness and reliability I have already ascertained or was guaranteed by someone I have confidence in.	36
b. I get better terms (i.e. lower interest rates, more leeway with respect to schedule of payments) through informal agreements.	27
c. Entering into legal contracts does not guarantee enforcement.	22
d. I only enter into business transactions with people whom I trust. Hence, there is no need for formal contracting.	18
e. I consider legally binding contracts as mere formalities.	11
f. Formal contracts might offend my partners.	8
g. Other	0

#### Why Use Written Contracts?

Five informants observe the use of written contracts in the context of evolving business practices that differ from those of older generations: acceptance of signed contracts in doing business, the diminishing importance assigned by certain individuals to their own reputation, and the reduced value of customer or partner loyalty (see Appendix 1, Item c). The Trader, Land Management Executive and Banker confirmed that they do business through written contracts (see Appendix 3, Item a, h). The Trader, who joined her family's packaging and trading business, explained that "things have changed" and "everything is now corporate." She said that her use of formal contracts is common and such written agreements do not affect her relations

with her closest friends. She thinks that the higher level of education attained by the younger generations combined with stricter business laws (see Appendix 2, Items a and d) have made it possible to veer away from informal dealings she calls “Divisoria-style,” likening such dealings to a popular shopping district in Manila called Divisoria. The latter is known for bargain and wholesale shopping, where transactions are maximized according to informal connections. Informal contracts become more and more superfluous when institutions mature and develop the capacity to enforce against opportunism (North 1981; Greif 1997). She does admit, however, that her older relatives would have been offended if their business partners insisted on putting agreements in writing (KI1 2013), a sentiment which the Land Management Executive agrees with (KI2 2013).

The particularities of formal businesses also make unwritten contracts infeasible. The Banker reasoned that in the past, verbal agreements would have been acceptable. But transactions in banking depend greatly on standard written agreements. She said in jest that the only informal arrangement that she allows between her and her clients is that she does not make them fall in line, as they do when transacting in the bank (KI3 2013). The Land Management Executive recounted that his current practice of having all transactions put into writing stemmed from a bad experience he had with high school batch mate. When the latter reneged on his obligations, he claimed, it opened his eyes to the reality that familiarity of a contact does not prevent opportunism from the latter (KI2 2013).

These accounts confirm what Wijaya (2008) argues: that ethnic solidarity and, in turn, ethnic group-based enforcement among Chinese in business diminished from how it was practiced historically. Contemporary Chinese now enjoy an established immigrant status, a stable commercial legacy, access to various resources outside that of the family, and more developed institutions. The present generation not only practices a sense of professionalism that challenges the strong familism in commercial decision-making; it also is less anchored on religious tradition and Confucian ethics.

### Reasons for Informal Contracting: Evidence from the Trading and Manufacturing Sectors

As presented in Table 8, in terms of respondents in the trading sector, the pattern is consistent with what can be observed in Table 7. For the respondents in the manufacturing sector, however, securing better terms is less important and is the third reason vis-à-vis the absence of enforcement guarantees in legal contracts, which is the second most frequent reason.

**TABLE 8: Frequency of Reasons for Informal Contracting by Respondents from the Trading and Manufacturing Sectors**

Reasons for Informal Contracting	Trading (26)	Manufacturing (12)
a. I only enter into business transactions with individuals whose trustworthiness and reliability I have already ascertained or was guaranteed by someone I have confidence in.	18	9
b. I get better terms (i.e. lower interest rates, more leeway with respect to schedule of payments) through informal agreements.	14	7
c. Entering into legal contracts does not guarantee enforcement.	12	8
d. I only enter into business transactions with people whom I trust. Hence, there is no need for formal contracting.	8	3
e. I consider legally binding contracts as mere formalities.	7	1
f. Formal contracts might offend my partners.	3	3
g. Other	0	0

### Connection Types of Informal Contract Users Vs. Informal-Formal Contract Users

The 40 individuals who used both contracting types had Chinese members of informal groups (30) and Chinese individuals referred by close connections (30) as their most frequent connections (see Table 9). The next most recurrent types of connections are Chinese in the immediate (27) and extended family (27), as well as Chinese in-laws (26). On the other hand, the eight individuals who only used informal contracting, listed Chinese in the same language group (7) as the most common type of connection, followed by Chinese referred by a close connection (6), and Chinese from one's informal group (6).

**TABLE 9: Actual Connection Types of Contract Users of Informal Contracts Only and Users of Both Informal and Formal Contracts**

	Informal and Formal Contract Users (40)	Informal Contract Users (8)
a. Chinese referred by close connection	30	6
b. Chinese in informal group	30	6
c. Chinese in immediate family	27	5
d. Chinese in extended family	27	3
e. Chinese in-law	26	4
f. Chinese in same language group	24	7
g. Non-Chinese godparent or “kumpadre” or referred to you by someone close to you	21	4
h. Chinese in sociocivic group	20	1
i. Chinese from same village/town in China	18	1
j. Chinese in different language group	15	4
k. Chinese in business group	15	1
l. Other non-Chinese	15	4

Grouping the respondents in terms of intensity of usage of a contract type, Table 10 presents a comparison of actual connections. With respect to respondents who equally utilized both contract types, their actual connections are predominantly Chinese from one's informal group (1st), followed by Chinese in-laws (2nd), Chinese referred by close connections (2nd), and Chinese in the immediate family (3rd). Actual connections of those who use informal contracts more often show that Chinese referred by a close connection (14) is the most frequent associate while Chinese in one's informal group (13) and Chinese of the same language (13) are jointly the second most frequent connection types. Chinese in the immediate family (12) is third along with non-Chinese godparent/non-Chinese referred by a close contact (12). While the kinship preference exists, actual connections are changing to consider the decreasing close-knit nature of the community owing to demographic effects (KI2 2013, KI3 2013, KI5 2013, KI7 2013).

Regarding the most frequently cited reasons as to why they engage in informal contracting, certain patterns can be observed in the 4 respondent clusters of informal contracting intensity in Table 11 (see columns 2–5). The first three clusters indicate that the most frequent reason for entering informal contracts is that they only transact with individuals with ascertained trustworthiness and reliability while the last respondent cluster enters informal contracting because legal contracts do not guarantee enforcement.

### **Sanctions against violating informal agreements**

As presented in Table 12, 49 out of 56 respondents deemed that the importance of good personal relations in business is the major deterrent in breaking informal agreements, only slightly more frequent than the value of good reputation and trustworthiness in business (48). The most frequently indicated deterrents were followed by difficulty in regaining lost trust (39), importance of good personal relations in social interaction (38), and family honor (37). Table 13 shows that 48 respondents believe that their networks help in determining contract violations from their business connections. Only five individuals noted that networks are of no

TABLE 10: Connection Types of Contract Users by Intensity  
in Use of Informal Contracts

	Respondents who use informal and formal contracts equally (19)	Respondents who use informal contracts more (17)
a. Chinese in informal group	15	13
b. Chinese in-law	14	10
c. Chinese referred by close connection	14	14
d. Chinese in immediate family	12	12
e. Chinese in extended family	11	11
f. Chinese in same language group	11	13
g. Chinese in sociocivic group group	9	8
h. Non-Chinese godparent or “kumpadre” or referred to you by someone close to you	8	12
i. Chinese in business group	8	6
j. Chinese in different language group	7	10
k. Chinese from same village/town in China	7	
l. Other non-Chinese	6	

help in this regard. Table 14 demonstrates that blacklisting of the guilty party from the aggrieved person's business network is the most frequently imposed sanction on violators (41). Damaging the reputation of the offending party (32) and barring the violator from entry into the social network (28) are second and third in terms of frequency, respectively. Following Hirschmann (1970), spreading word on a connection's bad behavior is a kind of "voice" sanction. On the other hand, excluding a person from doing business in your network is a form of "exit" punishment. Publicizing the person's wrongdoing within the network and beyond is the least imposed sanction, with 23 indications.

TABLE 11: Reasons for Informal Contracting by Type of Contract User

Reasons for Informal Contracting	Users of both informal and formal contracts (40)	Users of both informal and formal contracts as equally dominant contract types (19)	Users of informal contracts as the dominant contract type (17)	Users of informal contracts (8)
a. I only enter into business transactions with individuals whose trustworthiness and reliability I have already ascertained or was guaranteed by someone I have confidence in.	27	2	14	7
b. I get better terms (i.e. lower interest rates, more leeway with respect to schedule of payments) through informal agreements.	24	10	11	2
c. Entering into legal contracts does not guarantee enforcement.	18	11	9	2
d. I only enter into business transactions with people whom I trust. Hence, there is no need for formal contracting.	12	5	6	5
e. I consider legally binding contracts as mere formalities.	9	2	7	0
f. Formal contracts might offend my partners.	5	2	3	2
g. Other	0	0	0	0

TABLE 12: Deterrents to Informal Contract Violations

Deterrent	Frequency
a. Importance of good personal relations in business	49
b. Value of good reputation and trustworthiness in business	48
c. Difficulty in gaining back lost trust	39
d. Importance of good personal relations in social interaction	37
e. Family honor	37

TABLE 13: The Effectiveness of Feedback from Informal Networks  
in Determining Informal Contract Violations

Is Network Feedback Useful?	Frequency
Yes	48
No	5
NA	2
Unanswered	1
TOTAL	56

TABLE 14: Types of Sanctions Imposed on Informal Contract Violators

Type of Sanctions	Frequency
a. The guilty party is excluded or blacklisted from your business network.	41
b. The information on the guilty party is spread throughout the network, damaging his/her reputation and diminishing the former's chances of entering into future business transactions.	32
c. The guilty party can no longer participate in your social network.	28
d. The offense is publicized in the network (e.g. word of mouth, association newsletters) and outside the network.	23

## Does Age Matter in Carrying Out Informal Sanctions?

Factors that are most effective in deterring or preventing individuals from renegeing on business obligations are found to be consistent across age groups (See Table 15). Except for the 30–39 year old bracket, all age groups perceive the importance of having good relations in business as the most important reason that prevents connections from violating agreements. For the 40–49 and 60–68 age groups, however, the value of good reputation and trustworthiness in business was jointly deemed the most frequent deterrent. The 30–39 age group considered good reputation in business (22) as the most important reason followed closely by good personal relations in business (21). Among the sanctions that are imposed on renegeing connections, the most frequent penalty across the middle age groups (30–39, 40–49 and 50–59) is the blacklisting of the erring party from the respondents' business network. For the 60–68 age bracket, the joint top deterrents were business network blacklisting and reputation damage. Incidentally, the latter deterrent was the second most used sanction for the three middle-age groups. The youngest age group was the outlier as its most frequent sanction is the exclusion of the guilty party from the respondents' social network.

### Blacklisting in Networks

Two respondents mentioned that they actively reported the bad business behavior of certain individuals, which led to the latter getting “blacklisted” from their networks (see Appendix 3, Item i). The Insurer notes that in the insurance industry, certain family names are considered “hands off,” implying that blacklisting is still done in his line of business. He said that he had blacklisted a few people in the past. He pointed out, however, that the competitive nature of the insurance sector makes it quite rare for insurers to share notes about people whom they had bad dealings with (KI4 2013). The Land Management Executive, who was duped by a high school batchmate, reported that, within his group, the said individual's name is “mud now” as the latter has found it difficult to secure deals with

TABLE 15: Deterrents and Sanctions against the Defaulting of Obligations  
by Age Group

Deterrents Against Default of Obligations					
	29-below	30–39	40–49	50–59	60–68
a. Importance of good personal relations in business	3	21	8	8	9
b. Importance of good personal relations in social interaction	2	15	6	6	8
c. Value of good reputation and trustworthiness in business	2	22	8	7	9
d. Family honor	2	17	6	5	7
e. Difficulty in gaining back lost trust	2	19	6	5	7
Sanctions Imposed on the Guilty Party					
a. The information on the guilty party is spread throughout the network, damaging his/her reputation and diminishing the former's chances of entering into future business transactions.	1	11	6	5	9
b. The offense is publicized in the network (e.g. word of mouth, association newsletters) and outside the network.	0	7	3	5	8
c. The guilty party is excluded or blacklisted from your business network.	1	17	7	7	9
d. The guilty party can no longer participate in your social network.	2	10	6	4	6

his other high school batchmates (KI2 2013). Similarly, the Jeweler would simply inform his friends whenever he had a bad experience with a customer or supplier, aside from also being firm in not dealing with that person again (KI6 2013). It has been observed that individuals who do informal contracting can impose sanctions on erring parties in part through their own networks. Such punishment would include informing the aggrieved party's connections about the violator's practices sullyng the individual's reputation (Hirschmann 1970).

### **Qualified Use of Sanctions**

Some respondents, on the other hand, were uncomfortable with the term "sanction" (see Table 3.3, Item 3.10). The Trader asserts that in the event of defaulting associates, she usually charges such losses to her company's bad debt fund and advises her agents to only deal with trustworthy people. The worst sanction that she and her siblings would impose is warning people of such unscrupulous individuals (KI1 2013). The Leather Goods Trader shares that instead of badmouthing the unscrupulous, the most he would do is give an honest opinion only when solicited by his own connections. He recounts that five percent of his leather goods suppliers fail to provide the agreed on quality of goods. Instead of retaliation, he settles for a compensatory price adjustment for the purchased goods or he requests additional quantities of the goods (KI5 2013). Instead of blacklisting, the Baker asks fellow suppliers who also have noncompliant partners to mediate the debt collection. If this fails, and if the amount of money he lost is not that significant, he merely considers this as a slap on the wrist (KI7 2013). The Land Management Executive recounts incidents when people would also use *padrinos* (patrons), such as pastors, or even business organizations to find solutions to business-related conflicts (KI2 2013). The role of personalistic ties in smoothing exchange presents informal contracting and its sanctions as an alternative to a purely market mediated exchange, which is not without its own trust component (Lovett, Simmons and Kali 1999).

Despite their use of written agreements in commercial transactions, respondents are not keen on filing cases against defaulting individuals (see Appendix 1, Item d). Only the Land Management Executive, who works for a corporation, had recommended taking court action. He also has knowledge of Chinese-Filipinos who have used legal means in an effort to hold people accountable for their transgressions (KI2 2013). Using an insight from Chang (2004), we find that while informal mechanisms are useful in smoothing transactions across complicated milieus and boundaries, there arises the need for formal institutional enforcement from facilitating organizations.

The Baker was unwilling to use legal means. As he intimated: “Lawyers? They take too long...” (“Abogado? Eh ang tagal eh...”) (KI7 2013). Similarly, the Trader said that “only lawyers benefit” from taking people to court (KI1 2013). Lomnitz (1998) argues that the practice of informal exchange in the economic system is motivated by the inadequacies of the formal system in the production and distribution of goods and services. The informants’ observations squares off with the context in the Philippines that formality in institutions does necessarily indicate institutional effectiveness. In many cases, increased formality worsens bureaucratic inefficiency and informal enforcement find traction if it can deliver better outcomes.

### Difficulty in Informal Enforcement

While reputation in business is still considered important commercial capital (Hirschmann 1970), informants note the diminished importance of reputation in business among some of the younger generation (see Appendix 1, Item b), who can run away with the money if the amount is tempting enough (KI1 2013) as well as the growing proportion of members of the Chinese community that are not too concerned about ruining their standing in the community (KI2 2013). Population size and geographic distribution were cited by informants as reasons for the diminished importance of reputation as well as weakened ability to enforce against

contractual transgressions. Some point out the increasing population of Chinese in the country, particularly in Manila, and the reality that a good number of their coethnics have now already settled outside of Binondo, where bad reputations spread fast (KI3 2013; KI5 2013). These resulted in loose ties (see Appendix 2, Item b), allowing unscrupulous people to form new networks (KI2 2013) (see Appendix 1, Item a). On the other hand, while mobility further sterilizes the importance of reputation. The Baker points out that the Binondo community is no longer as close knit since its population, he estimates, is currently around five times larger compared to a few decades ago (see Appendix 1, Item a). The informant shared that, weakened ties and decreased trust had led to transactions being “done in black and white” (KI7 2013).

### **Rounding Up the Descriptive Study: The Enduring Practice of Informal Sanctions**

This study set out to do a descriptive research on Chinese in Metro Manila in regard to informal contracting in commerce. Using a structured questionnaire and semistructured in-depth interviews with key informants, we find interesting findings. Evolving social contexts shed light on the extent that informal contracting is used in present times. Informal ties are not as closed-knit in the present generation of respondents as compared to that of previous generations of their kin while formality in contracting is not an exception to the rule anymore. While the preference for kinship and ethnic ties in commerce lives on and there remains the propensity to include personalistic ties in business-related determinations (Tong and Yong 1998), we find that circumstances in the business environment and changing in-group characteristics affect and actual connections with nuances contingent on what types and degree of intensity informal contracting is used. Changes in the business environment include improved institutions, standardization of business practices and better access to various resources while developments in in-group characteristics such as improved status of integration, increased population and geographical dispersal have contributed to the weakening of ethnic solidarity in commerce.

In the positivist perspective, informal sanctions are, at best, perceived as ingenious transitory remedies to inadequacies in formal institutions and at worst, are themselves harmful barriers to institutional development (Warren, Dunfee, and Li 2004). This descriptive study whets motivation for further research, which considers informal sanctions in light of the dynamic of history, culture and socio-economic milieu, where personalistic ties are not only adaptive mechanisms to the environment but also catalysts for institutional change (Yang 2002). In the developing country context, it is important to consider informal contracting in the dynamics of the social and institutional environment (Tong and Yong 1998).

## Notes

- <sup>1</sup> Dr. Clemente acknowledges the invaluable research assistance of Jocelyn L. Curilan, the Kaisa Para sa Kaunlaran (KAISA) Heritage Center, Teresita Ang See, Meah See, Chak Chee Ang and Haidee Ong. The research was funded by the Asian Center Research Grant.
- <sup>2</sup> Marco Lagman thanks Anne B. Lagman for her valuable support.

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## In-Depth Interviews

- KI1, interview by Tina S. Clemente, Manila, 5 May 2013, *Interview with Key Informant 1. Personal Interview*.
- KI2, interview by Tina S. Clemente, Manila, 5 May 2013. *Interview with KI2. Personal Interview*.
- KI3, interview by Tina S. Clemente and Marco B. Lagman, Binondo, Manila, 4 June 2013, *Interview with KI3. Personal Interview*.
- KI4, interview by Tina S. Clemente and Marco B. Lagman, Binondo, Manila, 4 June 2013, *Interview with KI4. Personal Interview*.
- KI5, interview by Tina S. Clemente and Marco B. Lagman, Binondo, Manila, 4 June 2013, *Interview with KI5. Personal Interview*.
- KI6, interview by Tina S. Clemente and Marco B. Lagman, Binondo, Manila, 4 June 2013, *Interview with KI6. Personal Interview*.
- KI7, interview by Tina S. Clemente and Marco B. Lagman, Binondo, Manila, 4 June 2013, *Interview with KI7. Personal Interview*.

### APPENDICES: Behavioral Matrices

#### APPENDIX 1: Perception

	KI 1 TRADING	KI 2 LAND MGT	KI 3 BANKING	KI 4 INSURANCE	KI 5 LEATHER	KI 6 JEWELRY	KI 7 BAKER
a. Lack of trust: Chinese community too big/ don't know everybody	Y	Y	Y	DNM	DNM	Y	Y
b. Reputation still important?	Not like before	Not like before	Y	Y	Y	Not like before	Not like before
c. Difference in business preferences between older and younger generations?	Y	Y	Y	DNM	ND	Y	Y
d. Trust in the legal system	Only lawyers benefit	DNM	DNM	DNM	DNM	DNM	“Abo-33 gado? Ang tagal eh...”
e. Observed differences in informal contracting preferences of Chinese	Y	Y	Y	DNM	ND	DNM	Y

Note: DNM = Did not mention; ND = No difference; Y = Yes

**APPENDIX 2: Possible Causes of Behavioral Change**

	KI 1 TRADING	KI 2 LAND MGT	KI 3 BANKING	KI 4 INSURANCE	KI 5 LEATHER	KI 6 JEWELRY	KI 7 BAKER
a. Exposure to formal, Western education	Y	Y	Y	DNM	DNM	DNM	DNM
b. People no longer know everybody	Y	Y	DNM	DNM	DNM	DNM	Y
c. Integration into the formal/corporate system	Y	DNM	Y	Y	DNM	DNM	DNM
d. Stricter business laws	Y	DNM	Y	Y	DNM	DNM	DNM
e. Nature of business	DNM	Y	Y	Y	DNM	DNM	Y
f. Change in behavior due to institutional influences and nature of business	Y - corporate culture - no more informal contracts	Y - legal system; lawsuits as an option	Y - Central Bank regulation - “everything is by the book”	Y - BIR regulation; need to know clients better	DNM	No Change - everything is still cash-based	Y - competitive business environment, few long-lasting supplier relations

Note: DNM = Did not mention; Y = Yes

## APPENDIX 3: Actual Change or Retention of Behavior

	KI 1 TRADING	KI 2 LAND MGT	KI 3 BANKING	KI 4 INSURANCE	KI 5 LEATHER	KI 6 JEWELRY	KI 7 BAKER
a. Frequent use of formal contracts	Y	Y	Y	DNM	DNM	Y	DNM
b. Less loyal connections/more fluid relations	DNM	DNM	Y	DNM	DNM	Y	Y
c. Importance of ethnicity in selection of customers, partners, suppliers and employees	Important	Not important	DNM	Not important	Not important	Not important	Not important except for customers
d. Change in management style of children	DNM	DNM	DNM	Y - hiring of Filipinos	No change	No change	Y - less enduring business relations
e. Affiliation with associations and business groups	Not very active	Only informal associations	No group affiliation	No group affiliation	No group affiliation	No group affiliation	Not very active
f. Inherit or develop own networks	Both	Own	Both	Both	Both	Both	Both
g. Develop networks primarily through....	Friends and friends' referrals	Friends and relations	Friends' referrals and clients' referrals	Family referrals	Family referrals	From people he trusts	Performing clients and suppliers
h. Does informal contracting?	DNM	DNM	DNM	DNM	Y	Y	Y
i. Use of sanctions	N	Blacklisting	N	Blacklisting	N	N	N
j. Use of alternative sanctions	Warns friends and family of certain people	DNM	Associations impose sanctions*	DNM	Talks with suppliers	Informs friends and no longer sells to the person	Uses go-betweens to get payables

Note: DNM = Did not mention; N = No; Y = Yes